A STUDY OF FRINGE BENEFITS

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[redacted]

Submitted in partial fulfillment of
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ABSTRACT

Fringe benefits as a term was coined by the War Labor Board during World War II to describe the various indirect benefits which industry had devised to attract and keep labor when increases in direct wages were not permitted. Although some "fringes" had their beginning as early as the 1700's, World War II was the big accelerator for their growth. This study examines the background of, and presents statistics on this phenomenal growth over the last twenty-five years. It analyzes the problems involved in cost accounting these new "indirect wages" and examines the attitudes of management and labor towards them. Thoughts, by Academicians and Economists, that have been generated by the various problems in the field are presented along with the trends for the future. The appendix contains an analysis of comparative costs of fringe benefits in industry and the military services.

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CHAPTER I

INTRODUCTION

Fringe benefits as a descriptive term was first coined by members of the War Labor Board during World War II. They used it to describe the various indirect benefits that industry had devised to attract and keep labor when direct wage increases were not permitted.

Although World War II provided an accelerator for the growth of these supplemental wages, many of the basic benefits had been offered, in one form or another, by companies as early as the early 1900's. The idea behind the present day group insurance plans dates back to the middle ages when trade guilds had mutual benefit funds for accident and sickness. Some of the company plans for paid vacation and holidays ante date 1900. In general, however, prior to World War II most benefit-plans were for the white collar salaried employee. The significant growth in benefits for the hourly wage earner has taken place in the last twenty-five years.

An analysis of the impact of fringes on production costs, collective bargaining and ultimate benefit to the employer and employee is made very difficult because of the broad definitions for terms and the widely divergent attitudes towards what constitutes a fringe benefit. There are only one or two existing books that even attempt to explore this area. Most of the information exists in the form of surveys made by the Department of Labor and Chamber of Commerce of the United States; reports by the National Industrial Conference

Board; articles in various professional periodicals; studies by labor union economists; and articles appearing in the various news media.

The writer has come to the conclusion that any statistics presented in any one survey or study have been arranged in accordance with the prevailing attitude of the Economists or organizations presenting the particular paper. This is certainly to be expected in any field but several factors make these differences even more significant than would be ordinarily expected. It has been only in the last 10-15 years that any attempts have been made to cost analyze the various fringe benefits. The ground rules and standards are still being formulated. The presence or absence of a particular benefit, in considering a "fringe package," can have as much as 50 to 100 percent effect on the "statistics" presented. For example, the Chamber of Commerce includes paid vacations, holidays, and sick leaves as fringe benefits. They are considered as <u>extra costs of production</u>. The AFL-CIO objects to this procedure as being misleading. They maintain that these benefits provide no more <u>hourly or annual income</u> for the worker than he would receive if he had no vacation, holiday, etc.

In the pursuit of objectivity in presenting this report, the writer contacted the following sources:

1. The Chamber of Commerce of the United States
2. Department of Commerce
3. Department of Labor
4. American Federation of Labor and Congress of Industrial Organizations
5. United Mine Workers of America
6. International Brotherhood of Teamsters, Chauffeurs,

Warehousemen, and Helpers of America
7. National Industrial Conference Board
8. The Twentieth Century Fund
9. Foundation for Economic Education
10. American Enterprise Association
11. Vice Admiral T. G. W. Settle USN Ret., member of the 1962 Department of Defense Gorham Board for Survey of Military Compensation.

Return information was sometimes meager, but in every case, a surprising amount of interest was indicated. Further leads were always volunteered. Mr. Abraham Weiss, Economist for the Teamsters Union, replied with a four-page personal letter in which he covered the labor philosophy and ramifications of fringe benefits in collective bargaining. Vice Admiral Settle took time from a busy schedule to forward many facts, figures, and personal memoranda generated during the studies covering supplemental benefits in the military.

It is the purpose of this paper to attempt to organize and synthesize the widely scattered information available on the subject and then analyze the impact on costs of production and employee attitudes. Additionally, a comparison of industry fringe benefits with military benefits will be made within the framework of definitions and cost accounting presently available. Finally, an analysis of trends in fringe benefits and an answer to the question, "Do Fringes Pay For Themselves", will be hopefully attempted.

CHAPTER II

DEFINITION OF TERMS, BACKGROUND, AND STATISTICS

Over the past twenty years, the various supplemental benefits have more or less come to be grouped in the following general categories in most of the articles and surveys. (The nomenclature will be used throughout this paper).

Premium Pay Practices

Overtime Pay.
Shift Differentials (Additional pay for the 4:00 to 12.00 PM shift and another slight increase for the least desirable, Midnight to 8:00 AM shift).
Extra pay for Saturday, Sunday, or Holiday work.
Call-in pay (When unexpected work load requires company to call workers in after their regular shift. Usually a minimum is guaranteed regardless of how short a time is worked.)

Time Off With Pay or Pay For Time Not Worked (Employee Absent)

Paid vacations)
Paid Holidays) sometimes grouped as <u>PAID LEAVE</u>
Paid sick leave
Payments for summer military leave, personal excused absence (death in family, etc.), jury duty, voting, witness, etc.

Pay For Time Not Worked (Employee present at company)

Paid Rest Periods.
Lunch Periods.
Wash-up Time.
Clothes Change Time.
Get Ready Time, etc.

Health Benefits

Sick and Accident Insurance.
Hospitalization.
Medical-Surgical Insurance.
Major Medical Insurance (Of recent origin; to protect worker against infrequent, very expensive medical bills.)

Workman's Compensation.
Life/Accidental Death/Dismemberment Insurance,
Company Health and Medical Program (In-house program).

Security Benefits (Employer's contribution)

Legally Required

Old Age, Survivors, and Disability Insurance.
Unemployment Compensation.
State Disability Insurance (Employee contribution only in some states).

Agreed-Upon Benefits (Collective Bargaining or Paternalism).

Pensions.
Supplemental Unemployment Benefits (SUB).
Severance Pay (Separation or Termination Allowance).
Technological Adjustment Pay (Of recent origin; used when worker loses out to technological advances; to cover retraining, etc.).

Services to Employees

Meals Furnished by Company (Free and Below Cost).
Discount On Goods.
Moving Expenses.
Recreation.
Education Subsidies.
Credit Union.
Membership in Outside Organizations.
Clothing (work/safety).

Bonuses, Contributions, Profit Sharing, etc. (For which the employee renders no direct or special services).

Profit Sharing.
Stock Purchase Plans.
Stock Bonus Plans.
Savings Plans.
Christmas or Annual Bonus.

Tracing the development of fringe benefits is made difficult due to the fragmentary statistics available for the period prior to World War II. However, a historical trend can be established, keeping in mind that only a "feel" for the relative comparison between time periods is possible.

(The present day statistical surveys are based on different interpretations of what constitutes the particular benefit. Different wage bases are used; the older statistics (prior to 1945) were sometimes compiled from estimates rather than from factual data).

To insure that the reader is oriented in his thinking as to what comprises the various supplemental benefits and to set the scene historically for more comprehensive discussion, a brief thumbnail sketch will be presented on each benefit. Terminology is sometimes misleading and often changes from industry to industry, to union. (For example, the difference between a "company medical plan" and a "medical plan".) To derive information from the analysis, the reader should be familiar with the "fringe vocabulary" that has evolved with the programs.

Premium Payments.

The concept of premium payments for overtime, weekend, and holidays for hourly workers, has been accepted by some companies for years. The Wage and Hour Act of 1938 brought most companies into line and standardized the normal work week in steps down to 40 hours by 1940. Any time over this normal time was considered overtime and the worker was compensated at the rate of $1\frac{1}{2}$ times his normal hourly wage. Exceptions were permitted in industries of seasonal nature to permit scheduling work on an annual basis; restricting total normal time to 2080 hours for a 52 week period. During the war the Nation went on the six day 48 hour week. An executive

order stopped excesses in premium pay for continuous operation by prohibiting premium pay for Saturday and Sunday, unless these days constituted the sixth or seventh day of the regular work week. However, the same order authorized double time to be paid on the seventh day of a work week.

When the courts held, in the Mr. Clemens Pottery Case, that time spent getting ready to work should be paid for as working time, many lawsuits were initiated to obtain back pay for alleged work time. Public Law 49, the famous Portal to Portal Act, was passed to the effect that unless the company had agreed to such practice in collective bargaining or had established a precedent for payment such as this, there was no liability for overtime for traveling to and from work or for activities preliminary or postliminary to the principle work activities.

In establishments where it is necessary to maintain night-time as well as daytime shifts, a uniform cents-per-hour addition to first shift rates is the most prevalent condition existing in industry. For example, the second shift might receive 8 cents per hour more, and the third shift, 12 cents per hour more, than the first shift rates.

The ground rules for premium pay that were established in the late 1930's and the 1940's are still the basis for these benefits today. In 1963, President Johnson backed a proposal for double pay for overtime as a solution to the unemployment problem. At this writing no Congressional action has been taken on the proposal.

Time Off With Pay.

For salaried workers, paid time off for vacations and holidays and various other reasons has long been considered a "condition of employment."[1] The concept developed largely after World War I Although at least five companies had plans prior to 1900. Companies have followed the custom of closing on publicly recognized holidays for years. Many granted time off for vacation or other reasons when an employee had a justifiable reason. The big difference now is, that in addition to time off, employees are also paid for the time off.

The reasons for the 25 year lag in granting these benefits to the hourly worker are difficult to determine. The salaried workers were closer to the "front office", and it was assumed that they would make up the lost work on their own time. (Note that there was no overtime pay involved for a salaried worker to make up lost work). Salaried workers were also viewed as overhead and not as a direct labor cost of production. Hourly workers, on the other hand, were viewed as a direct labor cost and the traditional concept was, "no work - no pay".

There are no Federal or even State statutes that require the employer to grant pay for time off in the form of vacation or holidays. The War Labor Board directives during World War II gave impetus to both paid vacations and paid holidays for hourly workers. Before the war only 46% of the

[1] Time Off With Pay, (Studies in Personnel Policy, No. 156. New York: National Industrial Conference Board, Inc.,1957), p.7.

companies participating in a National Industrial Conference Board Survey granted paid vacations. In a 1956 survey, 99% of the companies were granting paid vacations. Likewise, only 14% of the companies granted paid holidays to hourly workers prior to 1939. The 1956 survey indicated that 96% now do.[2]

Closely related to vacations, is time off for military training. Prior to World War II, the relatively small group of employees scheduled for summer training with the National Guard or Reserves, utilized their vacation period for such training. As a result of the war there was an enormous growth in the number of employees subject to obligated training periods during the summer. For the first few years after the war some companies did, and many did not, grant additional time off, over and beyond vacation time, for their employees. By 1952, about 60% of the companies surveyed by NICB were granting additional time off.[3] In 1955 the Reserve Forces Act made reserve training compulsory and included penalties of 45 days of active duty for failure to fulfill annual training requirements. Unions became more vocal in demanding not only time off but with pay. By 1957, 85% of the companies surveyed were granting additional time off for those who must attend summer training. The manner of granting pay for this time varies from no company pay at all, to the company making up the difference between military pay and company pay the

[2] Ibid., pp. 7-24

[3] Ibid., p. 25

employee would have received.[4]

In 1957, twenty seven states had laws assuring employees sufficient time off to vote on Election Day. Not all of these states designate a specific time or duration. Eleven of them have stipulated two hours as actual time allowed and none provide for more than four hours. As in the case with vacation and holidays, salaried workers have traditionally had time off to vote for years, but it has only been in the past ten years that there has been a significant increase in the number of hourly workers allowed off during working hours for the purpose of voting. (This should not be construed to indicate that hourly workers did not vote without being absent from their jobs. The polls in every state open early enough and close sufficiently late to permit workers to vote outside their normal working hours.)

In a survey by the National Industrial Conference Board in 1954, only one third of the participating companies allowed hourly workers to take time off to vote, as compared to 90% for salaried workers. By 1957, forty-five percent of surveyed companies granted paid time off for voting.[5]

Hourly workers still lag far behind the salaried workers in paid time off for personal reasons (death or illness in the family, marriage, jury duty, sick leave, etc.), but union

[4] Ibid., p. 25

[5] Personnel Practices In Factory and Office. Fifth edition. (Studies in Personnel Policy, No. 145. New York: National Industrial Conference Board, Inc., 1954), p. 8

bargaining is steadily closing the gap. Surprisingly enough, paid sick leave, which is one of the major fringes for civil service workers, was provided for only 20% of the collective bargaining agreements examined in a Bureau of Labor study in 1959.[6] The small percentage is explained primarily by the fact that most manufacturing plants provide pay during absence for illness through sick benefit insurance rather than through paid leave. Traditionally, paid sick leave has been limited to the salaried workers while the hourly worker was covered by sickness and accident insurance. Company re-evaluation of practices and union pressure have led to significant increase of paid time off for jury duty and death in the family. Little change has occurred in the policies towards the other various personal absences.

Pay For Time Not Worked, (Employee present at company).

Coffee breaks, per se, are a result of the war-time innovation used to make factory work more palatable for women. They have continued today as unilateral agreements worked out for salaried workers. The term is sometimes found along with "smoking time," "relief periods", etc., included in paid rest periods for the hourly worker.

Provisions for paid rest periods were included in only 25% of the major collective bargaining agreements in effect in 1959.[7] However, there are undoubtedly many more informal

[6] "Paid Sick Leave Provisions in Major Union Contracts, 1959", Monthly Labor Review, October 1960.

[7] Rest Periods, Wash Up, Work Clothing, and Military Leave Provisions in Major Union Contracts. (Bulletin No. 1279, Bureau of Labor Statistics, 1961). p. 40.

informal agreements between company and employees than this figure would indicate. (The matter of rest periods may be covered by plant rules or by long standing company policy). Legally required rest periods applicable to women workers may also lessen the need for specific collective bargaining provisions. (At least twelve states have laws relating to rest periods for women). It has been estimated that prior to World War II only 25% of the companies, informally or formally, observed the practice of granting rest periods.[8] During the war this figure jumped to about 32% for men and 54% for women. There was a definite slump after the war, followed by a build up to 56% for men and 65% for women by 1955.[9]

A Bureau of Labor study in 1959, revealed that only about 17% of the collective bargaining agreements contained specific provision for wash-up, clean up, etc., during regular working hours. It was assumed that informal agreements were wide spread. In the 130 agreements that stated definite time allowances; five minute clothes change and ten minute wash up periods were the most prevalent.[10]

Health Benefits.

Legislated protection for an injured worker dates back to a Federal Act in 1908, which covered civil service

[8] Studies in Personnel, Policy No. 59, New York: National Industrial Conference Board, 1943, p. 10.

[9] Francis M. Wistert, Fringe Benefits. (New York: Reinhold Publish Corp., 1959), p. 43.

[10] BuLabor Bulletin No. 1279, op. cit., pp.9-15

employees. By 1920, forty-two of the states had enacted similar laws to eliminate the problems and uncertainties facing a worker who had to file suit and prove that the employer was negligent in order to collect damages for injuries. Depanding upon the state, the employer must either obtain insurance to protect the risk or give proof that he can carry his own risk and qualify as a "self-insurer".

Sickness and Accident Insurance, sometimes referred to as cash disability benefits, provides payments to workers to compensate partially for loss of wage income during absences caused by accidents and illness arising off the job, which workman's compensation does not cover. This proetection had its beginning in 1896, with employee sponsored plans. Since the 1920's, there has been an evolution of company participation.[11] In a study conducted by the Bureau of Labor in 1958, the employer paid the full cost of the benefits in 60% of the plans examined. Under almost all of the remaining 40%, workers shared the cost with the employer.[12]

Hospital Benefits are provided under private health and insurance plans and are almost invariably limited to disabilities from non-occupational causes. Benefits are provided in form of cash or services, or both. Again, in a BLS study

[11] L. W. Ilse, Group Insurance and Employment Retirement plans. (New York: Prentice Hall, Inc. 1953), p. 161.

[12] Health and Insurance Plans Under Collective Bargaining. (Accident & Sickness Benefits, Bulletin No. 1250 - Bureau of Labor Statistics, 1959), pp. 1-4.

in 1959, the entire cost of hospital benefits was borne by the employer in 60% of the plans. In the remaining plans the workers shared the cost with the employer.[13]

Surgical and Medical, as with the hospital benefits, are almost invariably provided for non-occupational causes. (The reason, of course, is due to the coverage of occupational disabilities by workmen's compensation.) Both the hospital and the surgical/medical insurance plans are comparable to the Blue Cross and Blue Shield Plans which had their start in the 1930's. In fact, many companies subscribe to these plans in providing these coverages for their employees.

In 1912, there was an attempt to pass a Federal law providing for twenty-six weeks of benefits (similar to present sickness and accident insurance) that would have granted two-thirds pay plus medical and surgical expenses. A reserve was to be established for payments, to which the State would contribute 20%, the company 40%, and the employee 40%. The idea was scrapped because the workers objected to deductions from their pay; the company objected to the cost; and Samuel Gompers, representing the unions, objected to the plan as paternalistic.[14] It was not until after World War II that any real impetus was given to hospital, surgical/medical plans. The trend now is "more", and entirely employer financed.

[13] Health and Insurance Plans Under Collective Bargaining, (Hospital Benefits, Bulletin No. 1274, Bureau of Labor Statistics, 1960), pp. 1-5.

[14] Wistert, op. cit., p. 63

Major Medical Expenses benefits or catastrophic illness insurance was only introduced about 1950. Ten years later, a Bureau of Labor study revealed that one fifth of the workers in the plants surveyed had this coverage; usually as a supplement to basic hospital, surgical/medical insurance. All plans have a "co-insurance feature" under which the insurer pays 75 or 80 percent of covered expenses and the insured the balance. The plans, in general, provided for a maximum of $5000 per disability or set lifetime limits of $5000 to $10,000.[15] (These figures are only approximate and are rendered at this time for the sole purpose of providing the reader with a "feel" for the scope of this new benefit.)

The entire premium is borne by the employer in less than one out of three plans in the forty-three plans examined by BLS. These plans are still undergoing evaluation and a foreseeable trend is to increase lifetime limits for the younger workers.[16]

Life Insurance/Accidental Death and Dismemberment benefits are usually covered under the same policy. The life insurance portion of all collectively bargained insurance plans invariably covers death arising from any cause at any time. Some plans limit accidental death and dismemberment (loss of limb(s) or eye(s) benefits to off-the-job accidents since protection for on-the-job accidents is provided by workmen's

[15] Health and Insurance Plans Under Collective Bargaining, (Major Medical Expense Benefits, Bulletin No. 1293, Bureau of Labor Statistics, 1961), pp. 1-6

[16] Ibid.

compensation. All three benefits are generally provided through term insurance policies purchased from commercial insurance carriers. (The first major group plan ever written by an insurance company was for Montgomery Ward in 1912.)[17] Statistics on the growth of insurance plans are merged under the overall heading of Health and Insurance Plans. Available data from The Bureau of Labor, on collective bargaining agreements only, indicate that these plans have grown from a coverage of .6 million workers in 1945 to 14.5 million in 1960.[18] In a study conducted by the BLS in 1960, the entire cost of life insurance was paid by the employer in 60% of the plans examined. The cost was shared in the remaining plans. Accidental death and dismemberment benefits were included in almost one half of the 300 plans and were paid for by the employer in 70% of the plans.[19]

Company Medical and Health Programs include the "in plant" programs that provide for curative care for industrial injuries, preplacement examinations, periodic examinations, post lay off examinations, termination examinations, visual and hearing programs, preventive medicine, etc. In most instances these services in their inception in the early 1900's resulted from the enactment of workmen's compensation laws.

[17]Ilse, op. cit., p. 69.

[18]Health and Insurance, and Pension Plan Coverage In Union Contracts, (BLS Report No. 228 Bureau of Labor Statistics, 1962), pp. 1-4.

[19]Health and Insurance Plans Under Collective Bargaining, (Life Insurance and Accidental Death and Dismemberment, Bulletin No. 1296, Bureau Labor Statistics, 1961), pp. 1-4.

These laws caused industry to recognize the value of instituting on-the-premise facilities for prompt medical care of workers who were injured on the job or affected with occupational disease.[20] This function remains as an important reason for the existence of these programs but, as can be seen by the preceding paragraphs, many additional services have been added. The overall attitude of management towards the individual worker has changed in the past thirty to forty years. Concern for the worker and realization that preventive medicine saves money in the long run, have generated the new approach. Most companies exclude these services from the list of fringes since, like safety clothing, suggestion awards, etc., the costs versus savings are difficult to delineate.

State Disability Insurance is not generally considered a fringe since in most states it is paid for by the employee. It is discussed here for clarification purposes and to familiarize the reader with the terms that will be employed in later discussions. Since several states have some form of disability insurance, California's plan will be the basis for some generalizations.

Disability insurance is payable when the employee cannot work because of non-occupational sickness or injury. Wage earners covered under the unemployment insurance provisions are covered under disability insurance. The employer

[20] Company Medical and Health Programs, (Studies in Personnel Policy, New York: National Industrial Conference Board, 1954), pp. 5-13.

withholds about 1% of the worker's wages which is paid into a state fund. Benefits range from $25 to $77 a week, based on a formula tied to the average total weekly wage.[21]

Security Benefits (Compulsory).

Federal Old-Age, Survivors, and Disability Insurance benefits are meant to replace part of the earnings the family has lost due to the worker retiring, dying, or being disabled (unable to engage in any substantial gainful activity). The U. S. Department of Health, Education, and Welfare currently states that 9 out of 10 working people are either fully covered or working towards qualifying credit under the system. At present (1964) credit for 3¼ years of work under social security is necessary to become fully insured. This will increase by one quarter of a year up to a maximum of 10 years by 1991. The plan is financed by joint equal contributions by the company and the worker. The current cost to the company is 3 5/8% on wages up to a maximum of $4800. This will increase to 4 1/8% in 1966, and to 4 5/8% in 1968, under current law.[22] However, predictions of future costs are "onward and upward". Past history indicates that the probability of further revision upward of either the maximum amount of wage taxable or the rate of taxation, is very high.

Unemployment Compensation is the system devised by the

[21] Employers Handbook on the California Unemployment Insurance Code, (State of California Department of Employment, 1964), pp. 40-41.

[22] Your Social Security (OASI - 35, U. S. Department of Health, Education, and Welfare, U. S. Government Printing Office, 1964), pp. 1-20.

individual states to utilize the Federal Unemployment Insurance that was established by the Federal Unemployment Tax under the original Social Security Act of 1935.

As a result of the "Big Depression" the Federal Government undertook to indemnify the risk of unemployment by requiring all employers with four or more employees to pay a 3% Federal tax on their payrolls. The ultimate plan was for the states to enact unemployment compensation plans and allow up to 90% of the Federal tax to be off-set by payments to the state tax. The result is a different plan for every state but some generalizations can be made.

To be eligible for benefits the worker must meet the state's minimum prior service and earnings requirements. For example, the State of California requires the worker to have been paid wages in "covered employment" (employer required to pay unemployment insurance taxes) of at least $600 during a previous twelve month period known as the "base period". Benefit amounts depend on the wages in the highest quarter of the base period and can vary from $25 to $55 per week for a maximum of 26 weeks. The worker must be physically able to work, available to accept work, and actually seeking work, to remain qualified.[23]

The costs to the employer average 2.4% of wages subject to taxation. This amount fluctuates based on the employer's "experience rating" under the state laws; i.e., a higher percentage of unemployment in a particular company increases the rate of taxation to that employer. The most common method of

[23]State of California <u>op</u>. <u>cit</u>., pp. 1-4.

determining employer costs is the reserve-ratio formula. The balance between company contribution and paid benefits to its employees is divided by the payroll to determine the "reserve-ratio". The rate varies up to the maximum of 2.7% (based on the 90% off-set allowable against the 3% Federal Tax). The Federal tax provision recognizes the incentive for stabilization of employment and permits the employer the credit towards the maximum state tax of 2.7% even though he may be paying less due to a good "experience rating." [24]

<u>Security Benefits</u> (other than those legally required).

<u>Private Pension Plans</u>, like most of the fringes, have seen their most significant growth subsequent to World War II. The pension movement began in about 1915, and by 1925 it is estimated that four million employees were under a pension plan of some type. Quite a few of these plans were pay-as-you-go type plans and were eliminated by the depression. The Bureau of Labor estimates that in 1940, the number of employees covered by private pension plans was again at four million (excluding railroad workers since they were under the Federal Railroad Retirment Board at this later date). Wage controls and high corporation taxes, during and since World War II, accelerated the establishment of pension plans. Their coverage rose to 11.2 million in 1950. Court decisions in 1948-1950, made welfare and pension matters a bargainable issue, and labor unions gave added impetus. By 1962, the figure stood at 22 million workers covered by private pension plans, of which 11 million were under collective bargaining.[25]

[24] Wistert, op. cit., pp. 16-21

[25] Multi-employer Pension Plans Under Collective Bargaining (Bulletin No. 1326, Bureau of Labor Statistics, 1962), pp. 1-6

Reserves held by private pension funds rose from $12 billion in 1950, to almost $50 billion in 1960. In comparison, public pension funds (Social Security, Railroad Retirement, etc.) only rose from $26 billion to $56 billion during the same period. Reserves for private funds continue to grow at approximately $4 billion per year. Of these private plans, $18.7 billion were under an insured type of program where an insurance corporation administered the funds and guaranteed a fixed level of retirement income to the member. About $31 billion were set up as pension trusts in which an investment bank or independent board of trustees administered the funds. Security of the pensions depends on the solvency of the pension trust. The funds are generally invested in stocks and bonds and have the advantage of flexibility and higher rates of return over the insured plans.[26] In 1960, only 462,000 workers were covered by unfunded plans according to a BLS study released in 1963.[27]

Generally speaking, four types of pension-plan administration are to be distinguished:

(1) The single employer administered; usually non-contributing from employees and administered through a trustee. In 1956, it was estimated that 86% of all covered employees

[26] Miriam Kerpen and Mitchell Meyer, "The Growth in Corporate Pension Funds," Management Record, XXIII, 7-8, July-Aug. 1961, p. 18 +.

[27] Prevalence and Characteristics of Unfunded Pension Plans, (Preliminary Release, Bureau of Labor Statistics, 1963), pp. 1-6.

were in pension plans of the single employer type.[28]

(2) Single employer-union (jointly administered); the company contributes an agreed upon amount per employee to the fund that is administered by a board of trustees in which there is equal representation of company and union.[28a]

(3) Multi-employer-union (jointly administered). (Similar to (2) and evolved along with multi-employer collective bargaining agreements.) These plans are most commonly found in industries such as construction, food, apparel, service and trade, etc; characterized by seasonal and irregular employment, small establishments, and such frequent job changes that few workers remain with a single employer long enough to qualify for a pension. Multi-employer plans had grown from practically zero in 1947 to coverage of 3.3 million workers in 1959.[29]

(4) Wholly union administered plans, where the funds come from dues and assessments paid by union members and are administered by a local or International union. (Relatively few funds are administered solely by unions.)

It can be seen that (1) and (3) comprise almost 100% of the types of pension plans. There are very few unfunded plans remaining. Of the funded plans, 60% of the reserve

[28] Paul Harbrecht, S. J., Pension Funds and Economic Power, (New York: The Twentieth Century Fund, 1959), pp.43-46.

[28a] Ibid.

[29] Prevalence of Multi-employer Pension Plans Under Collective Bargaining, (Preliminary Release, Bureau of Labor Statistics, 1961), pp. 1-7.

funds are in pension trusts while the balance are in an insured type program.

Severance Pay Plans have arisen because of the growing concern for the major problems of adjustment for workers who are dismissed from their jobs due to recessions, plant relocation, technological innovations, etc. Unfortunately, statistics are scanty prior to World War II. Many companies after the depression had a unilateral policy of granting some form of severance pay to facilitate worker adjustment in seeking new employment. The Bureau of Labor estimates that only 5% of the collective bargaining agreements in 1944, contained provisions for severance pay. However, by 1956 this had increased to 16% of the agreements and covered 25% of the industrial workers. The AFL-CIO estimated in 1959, that 35% of all workers under union agreements had formal provisions in their contracts for severance pay.[30] There are indications that many companies have informal severance pay arrangements. The National Industrial Conference Board found that all but 7 of 242 manufacturing companies surveyed, had provision for severance pay after five years of employment.[31]

Due to the variety of plans existing, generalization only will be made at this time. The average payment tends to be one week's pay for each year of service up through ten

[30] "Severance Pay Plans," AFL-CIO Collective Bargaining Report, Vol. 4, No. 10, October 1959.

[31] "Severance Pay in Manufacturing", Management Record, XXI No. 5, May 1959, p. 154+.

years. Workers with over ten years service usually receive a higher rate of severance pay.

Supplemental Unemployment Benefits, (SUB).

In 1955, in negotiations between Ford Motor Company and the United Auto Workers, the union pushed for a guaranteed annual wage (GAW) proviso. This, Ford rejected, due to: (1) unlimited liability of the company, (2) costs not predictable, and (3) payments would be at a time when the company could least afford them. A counter proposal, which became known as the "Ford Supplemental Unemployment Benefit Plan", was made and accepted by both parties.[32]

The plan has spread throughout industry and is one of the fastest growing of the "fringes". The Bureau of Labor compiled a digest of nine different plans in effect in 1963. While all the plans were designed primarily to provide weekly supplements to state unemployment compensation, most have incorporated severance pay provisions also. Some have included moving allowances ranging from \$55 to \$580 if the worker must move to a different locale to take a new job. A few have added benefits payable if the worker is not employed for a full work week of forty hours.

Plans are either "individual account" or "pooled funds". Under the individual account plan, company contributions (average figure of ten cents per employee hour worked) are credited to the employee's personal account. Payments of

[32] The Ford Supplemental Unemployment Benefit Plan. (Ford Motor Company., Dearborn, Mich., 1955).

about $30 per week are made until the account is exhausted. Any balance upon termination of employment or death, is paid to the employee as severance allowance or to survivor as a death benefit. Under the pooled funds, and these are in the vast majority, the employer contributes an average of five cents per employee hour worked to the fund. Workers build up "credits" and "charges" for time worked and not worked. These credits and charges are independent of company contribution and the employee has no vested rights in the fund. Payments are generally dependent on worker's eligibility for state unemployment compensation and 1-2 years of service. Payments average $10 - $40 weekly (depending on the financial status of the fund) for 26 up to 52 weeks depending on the plan. The few short-work-week benefits vary widely. The amount which some plans pay to a worker not completing a full week of work, is determined by multiplying a specified percentage of the worker's hourly wage by the number of hours that he does not work.[33]

Payments for Employee Services.

We now enter an area of fringe benefits where not only is there a divergence of opinion between labor and management as to whether various services constitute a fringe, but also we find split viewpoints among the companies. In general, only the following have warranted specific listing on fringe surveys: (1) discounts on goods and services purchased from company by employees, (2) employee meals furnished by company,

[33] Digest of Nine Supplemental Unemployment Benefit Plans. (Bulletin No. 1365, Bureau of Labor Statistics, 1963), pp.1-25.

and (3) educational subsidies to employees. The remainder are either buried under "miscellaneous" or excluded from the surveys as being inconsequential.

It is considered that the sample listing on pages 4 and 5 of this paper is fairly self explanatory. It is not purported to be all inclusive but merely representative of the services most frequently listed, or the latest entries in a rapidly changing field. In a survey of nine companies by the National Industrial Conference Board in 1952, for the purpose of formulating criteria for computing fringe costs, it was determined that most companies would exclude all of the so-called services to employees from the "fringe package" except for cafeteria losses and recreation activities.[34] A brief background on two newcomers; moving expenses and membership in outside organizations, will be the limit of "reader familiarization" in this particular area.

Moving Expenses. Of 151 companies, surveyed by NICB in 1956, which pay some portion of their employee's moving expenses, practically all pay such expenses for top management and supervisory personnel; 95% contribute towards expenses of technical and professional workers; 89% assist salesman; 72% help clerical workers; and nearly 70% help rank-and-file production and/or operating employees. As a rule, companies pay none of the moving expenses of transferred employees unless the move is made at the request of the company. The full cost of transferring employees' furniture is paid by over 90% of

[34] Computing the Cost of Fringe Benefits, (Studies in Personnel Policy, No. 128. New York: National Industrial Conference Board, 1952), pp. 3-19.

the companies. Very few imposed any limit on the amount of furniture that will be moved. Approximately 92% of the companies surveyed pay for the transportation of families to the new location. In the 1960 re-survey of 35 companies, the same patternof 80% paid for insurance coverage. The trend toward underwriting losses sustained by unexpired leases had increased from 33% to 66% of the companies. The percentage of companies making loans to assist in the purchase of new homes remained at 25% for the 1956 and 1960 surveys.[35] In a 1962 survey of 46 companies, 61% of the companies guaranteed their employees against loss on the sale of their old home.[36]

Membership in Outside Organizations subsidized by the company is a new trend in fringes noted in a 1960 survey by NICB. A number of companies are encouraging and even requiring some of their technical, professional, and sales personnel to join professional, trade, and social organizations. It was noted that the benefits were double barrelled, in that both the employee and employer stand to gain. The engineer would keep abreast of latest developments which may help him win a promotion; the ideas that he brings back to the job can also

[35] Company Payment of Employees' Moving Expenses, (Studies in Personnel Policy, No. 154 New York: National Industrial Conference Board, 1956,) pp. 5-40 (1960 Supplement, pp.2-13.

[36] "Transferred Employees with homes to Sell" Management Record XXIV, No. 12, Dec. 1962, pp. 14-20.

contribute to his company's progress. The salesman who joins social clubs may earn higher commissions but the company adds to its profits.[37] Where this new fringe will lead is still in the stage of conjecture. It is only offered here as an example of how the entire field of supplemental benefits is expanding.

<u>Profit Sharing, Stock Purchase, Savings Plans, and Bonuses.</u>

In an article for <u>Dun's Review</u>, William Casey, A New York lawyer specializing in tax and financial matters and author of <u>Tax Sheltered Investments</u> and <u>Executive Pay Plans</u>, has estimated that it takes almost $100,000 to buy security for an employee if he lives; or for his family if he dies.[38] Undoubtedly, differences of opinion can be found on his figure but granting that he is not too far in error, it is virtually impossible for the average executive, much less the average wage earner, to accumlate this capital under our present tax sistem. Pension plans (discussed earlier) are one form of building this capital. American employers and unions are engaged in a vast many-sided effort to build capital for their workers.

<u>Profit Sharing</u> was first mentioned in American History when Albert Gallatin, Secretary of the Treasury under Thomas Jefferson and James Madison, tried it in his glassworks in 1794. Others tried over the years, but the oldest surviving

[37] "Company Pays Membership", <u>Management Review</u>, 49, Oct. 1960, pp. 59-62.

[38] William J. Casey, "What Price Employee Security?" <u>Dun's Review</u> 73: April 1959, pp. 54-56.

plan today is the one established by Proctor and Gamble in 1887. In a survey conducted in 1927, the National Industrial Conference Board found that 197 out of 4,655 manufacturing concerns, or 4.2%, had profit sharing arrangements.[39]

The plans now, as then, are based on two types of distribution: (1) current distribution, or immediate distribution plan, and (2) deferred distribution, in which a designated share of the profits are deposited in a fund and credited to the employee's accounts for distribution at a later date. The proportion of the current distribution type has been declining quite rapidly while the deferred type has increased at a phenomenal rate. World War II appears to be the significant influence for both trends. Federal regulations to control wage rates during the war encouraged the adoption of profit-sharing plans of the deferred type. To stabilize wages the government forbade establishment of any new profit sharing plans of the current distribution type. Excess profits taxes were also a great incentive for deferred profit sharing. For every dollar contributed to the fund only twenty cents was actually "expended"; as the remaining eighty cents would otherwise have gone into taxes.

The changing concept of the objective of profit sharing has given added impetus to the plans since the war. Previously, profit sharing was considered a supplement to the wage structure and the employee's share distributed annually or at shorter intervals. Now, it would appear that employees are

[39] Sharing Profits With Employees, (Studies in Personnel Policy, No. 162, New York: National Industrial Conference Board, 1957), pp. 1-11.

are more concerned with security than with higher wages, according to a survey conducted by Opinion Research Corporation of New Jersey.[40]

In a survey of 130 deferred plans and 53 current plans by the National Industrial Conference Board, 56% of the deferred and 33% of the current plans computed the employees' share of the profits directly from net income before providing for shareholders dividends. The balance of the plans provided for deduction of dividends or earnings for invested capital before employees share in the profits. In general the companies which compute employees' share direct from net income, contribute 15% or less to the fund. For plans that deduct for dividends first the contribution generally is 25% or more of profits.[41] The contributions go into a fund and are usually invested in stocks and bonds.

The distribution of profits under <u>current plans</u> is usually in cash on an annual basis and averaged $300 to $400 per participant in 1955. Under <u>deferred plans</u>, benefits are given on four principle occasions: (1) retirement, (2) permanent disability, (3) termination of employment, and (4) death. Determination of the employee's share is generally based on employee compensation and years of service for both plans.

<u>Stock Purchase Plans</u> had their first big push in the stock speculation period of the Twenties. The National Industrial Conference Board estimated that more than one million wage and salaried workers, in 1928, were purchasing over $1

[40] <u>New York Times</u>, May 18, 1958, p. F2.

[41] NICB Study No. 162, <u>op. cit.</u>, pp. 9-42.

billion worth of their companies securities. After the crash of 1929, most of the plans were discontinued. In a survey of 2700 companies in 1939, only 4.4% sold their securities to rank-and-file employees under an organized program.[42]

At the end of World War II there was a revival of interest in employee stock ownership. In the late 1940's American Telephone and Telegraph Company and International Harvester reinstituted plans they had dropped in the early 1930's. Other well known companies adopted plans about the same time, but this revival of interest has not led to any stampede for stock purchase plans. In 1953, the NICB explored their principle sources of information and could find only 68 formal plans for selling stock to employees. (Of these, over half were inactive.) It appears that company securities are more often purchased in behalf of employees in other types of plans.[43] In the previously discussed profit sharing plans, the employee may receive his share of the profits in the form of company stock. The growth of employee savings plans (to be examined subsequently) has become another means of stock purchase.

In the stock purchase plans examined by the NICB there were two types of plans found: (1) formal stock purchase plans in which the employee makes a committment to buy a certain number of shares at a given price and immediately starts regular contributions toward payment, and (2) stock

[42] Stock Ownership Plans, (Studies in Personnel Policy, No. 132. New York: National Industrial Conference Board, 1953), pp. 5-6.

[43] Ibid.

option plans under which the employee is offered a definite amount of stock at a specific price. (If he exercises the option to buy, payroll deductions begin immediately with the money accumulated until sufficient to cover the entire cost of the stock. The employee can decide not to purchase any time during this accumulation period.) A 1950 amendment to the Internal Revenue Code which gave tax advantages to the employee exercising a stock option, has created a trend towards this type of plan.[44]

Unlike most benefit plans, the stock purchase plans are usually of an intermittent nature since the supply of company stock varies. This may account partially for the inactivity in many of the plans in the NICB survey since the companies rarely go into the open market to buy stock for resale to the workers.

Over one half of the companies who have plans, give their employees some kind of discount in their purchases of stock. One quarter of the plans provide for sale at current market value, while the remaining companies usually have a fixed amount for the price to the employee.

"Standard" Stock Bonus Plan is an extension of the Stock Purshase Plans whereby the employee receives a bonus of an extra share of company stock after he has paid for a specified number of shares. The term is introduced here because it is also used to describe the employer's "bonus" in Employee Savings Plans, (to be examined next). In the latter case the company stock goes into a trust fund whereas in the "standard"

[44] Ibid. pp. 8-20

stock bonus plans, it does not. Furthermore, in the savings plans the distribution of the stock bonus is deferred, but in the standard bonus plan the participant receives his share as soon as he has earned it.

Employee Savings Plans (Thrift Plans, Stock Bonus Plans, etc.). As can be discerned from the array of titles, this new fringe has been labeled as the instituting companies saw fit at the time. Even the term "employee savings" is arbitrary and used here becaused the National Industrial Conference Board employed it in their studies. These plans have certain elements in common with the deferred profit sharing and stock purchase plans. The fundamental difference is that in the savings plan a participant voluntarily contributes some percentage of his wages to a fund, and the company matches all or part of it. All contributions are put into a qualified trust and invested, (generally in company stock) with distribution at a later date.

In a survey conducted by the NICB in 1962, it was estimated that not more than 150 companies have an employee savings plan. It is significant that the petroleum industry has almost 85% of its employees covered; the "Big Three" in auto makers have plans; and U. S. Steel, General Electric and leading companies in chemicals have plans.[45] These leaders may very well pull the rest of industry with them as labor contracts come up for renewal. (Favorable tax treatment accorded these plans was a major consideration. Company

[45]Employee Savings Plans In The United States, (Studies in Personnel Policy, No. 184 New York: National Industrial Conference Board, 1962). pp. 3-14.

contributions are deductible from gross income and are not taxable income for the employee until distributed.)

In ninety-four plans examined by the NICB three different types were found: (1) long term plans in which benefits are usually paid when a participant terminates employment with the company, (2) short term plans designed to provide funds while a participant is still employed by the company but generally only after 3-5 years participation in the plan, and (3) combination plans in which employees can contribute to either long term or short term or to both by means of two separate funds. About 63% of the companies had long term only; 7% had short term only; and 30% had combination plans.

In 75% of the plans the entire work force was eligible to participate; in the remaining 25% only salaried workers were eligible. In almost all plans the worker could choose how much he could contribute up to a maximum percentage of his regular salary. In 55% of the plans these limits were 5-6%; another 30% permitted 8% and 10%, the balance were usually 3-4%. Company contributions vary from 25% to 200% of each employee's contribution. The general rule is 50%. It was found that about 85% of eligibile employees participate and of these about 75% contribute the maximum allowable amount.[46]

The most common investment media are company common stock and U. S. Government bonds. One of the objectives, from the company point of view, is to encourage employees to

[46] Ibid. pp. 8-29.

become company stockholders in addition to systematically saving their money.

Christmas Bonus (Annual Bonus). This type of bonus has been a perennial favorite over the years. It is given as a lump sum, generally at the end of the year, and has acquired the status of tradition in western culture. In a survey of 125 companies by the NICB in 1959, a specific check for changes in this fringe was conducted. (Companies with less than 250 employees were excluded because, in the experience of the NICB, the smaller companies were always more biased in favor of the bonus due to closer relationships between employer and employee.) In 22% of the companies (1000 employees and over in general) the bonus had been dropped. Reasons given were: (1) employee attitude, (2) lower earnings did not justify a bonus, (3) increased labor costs, and (4) company mergers.[47]

No concrete trend can be adduced, but there are indications that in some of the larger companies, compensation is made by some of the more sophisticated plans discussed previously. It would appear that the Christmas Bonus is in no real danger for the immediate future. It is still very popular among smaller firms and in the majority of the big companies.

[47] "What's Happening to the Christmas Bonus," Management Record, Vol XXI No. 11, November 1959, pp 358-360.

CHAPTER III

COST ANALYZING AND READING STATISTICAL SURVEYS

In Chapter II, background information was provided on the fringes which have the widest use in industry or which are recent innovations in this area. In some instances the information was a bare minimum because the benefits have been a part of our society for at least one generation and are either well known or else self explanatory. In other instances a more comprehensive "sketch" was provided to enable the reader to follow the reasoning underlying the ensuing discussion on computing the cost of fringe benefits.

To demonstrate the difficulty in appraising costs of fringes, the word "costs" is considered inappropriate in some quarters. The AFL-CIO draws a distinction between <u>expenditures</u> and <u>costs</u>. They maintain that some fringe benefit expenditures produce benefits or savings for the employer, as well as for the worker, and these may reduce his actual "costs".[48]

The Chamber of Commerce surveys and the National Industrial Conference Board reports consider expenditures that must be included somewhere in the costs of production and therefore reflect on the company's profits, as "costs".

The Bureau of Labor, in their studies, takes a neutral position. It recognizes the problem, however:

[48]"Fringe Benefits", <u>Collective Bargaining Report</u>, (United Auto Workers) April 1962, pp. 1-5.

... a paid vacation policy obviously involves an expenditure of money by the employer. However, this does not reflect the net cost of a vacation policy. There are offsetting savings, which may include the resulting increase in productivity during the remainder of the year, a reduction in absenteeism, and a reduction in labor turnover.

On the other hand, additional expenses may arise through the substitution, training, and transfer of workers during the vacation season, the hiring of less efficient replacements, the loss of production during the vacation season, the legally required payments such as the social security tax which applies to vacation pay as well as to regular wages, and the administrative costs involved.

A vacation shut down, however, may eliminate training and replacement costs, permit uninterrupted maintenance and repair work, and if coinciding with a slack period or seasonal lull, favorably affect the employer's experience rating under State unemployment compensation laws. The determination of the net cost of a vacation policy is manifestly a complicated accounting problem.[49]

Similar analysis can be made on many of the various fringes. As a result the Bureau of Labor does not attempt to evaluate the costs to the employer or the benefits derived by the employee.

The Chamber of Commerce noted the scarcity of information regarding the scope and nature of fringes as early as 1947 and has conducted comprehensive studies for a cross section of American industry on a biennial basis ever since. The National Industrial Conference Board and the Bureau of Labor Statistics have made several studies on individual fringe benefits. The NICB has not attempted a statistical survey of industry, as has the Chamber, because it has not reconciled the

[49] Problems in Management of Expenditures On Selected Items of Supplementary Employee Remuneration, Manufacturing Establishments. (Bulletin No. 1186, Bureau of Labor Statistics. 1953) p. 3.

disagreements on what constitutes a fringe. The BLS conducted a survey entitled Employer Expenditures for Selected Supplementary Practices for Production Workers in Manufacturing Industries, 1959. It has conducted follow-up surveys in other work areas, e.g., mining in 1960, finance and real estate in 1961, and is still formulating ground rules for such surveys as it progresses.

In essence, the only historical series of statistics on fringe benefits are those of the Chamber of Commerce of the United States. (The Department of Commerce has published some fringe data in its National Income Statistics since 1932, with some information reworked back to 1929. However, its definition of "Supplements to Wages and Salaries" includes only the legally required payments and employer contributions to pensions and limited health benefit funds. The data are not nearly as comprehensive and cannot be compared to the Chamber surveys. (When the writer contacted the Department of Commerce for information on "supplemental benefits", he was referred to the Department of Labor for relevant statistics.)

Comparison between the only two sources of fringe surveys, Bureau of Labor Statistics and the Chamber, is difficult because of the differences in grouping fringes, defining fringes, etc. In general, the scant comparison that can be made (between the one BLS survey and the Chamber's for the same year) indicates that they are in very close accord, with the BLS reporting a slightly lower level of benefits.

Companies and unions recognize that data on the costs of fringe benefits are a necessity for negotiations. The companies

also use the information for cost analysis and educating their employees on the benefits which they are receiving over and beyond their hourly wages.

In negotiations unions usually do not state their demands for benefits in terms of costs; i.e. cents-per-hour but rather they talk about a third week of vacation, etc. Since the company, of necessity, must compute the price tag of this"benefit" in terms of added costs to production, the two parties must have agreement as to the impact on the company and on the employee. This brings us right back to the unsolved mystery of what constitutes a fringe.

The broadest definition is; any expenditure on labor other than straight time pay. With this definition a company can include every one of the benefits discussed in Chapter II, plus many more. (One authority has listed 105 benefits that he has found in use in industry.)[50] The narrowest definition is: any expenditure that has cash value to the employee. This could exclude life insurance, recreation facilities, etc.

Comments and viewpoints of management, union, and BLS on items to include or exclude in the fringe benefit package are presented below. They have been gleaned from NICB studies, union reports, and BLS studies.

PREMIMUM PAY

Management is split on premium pay. Some say it represents extra wages to workers with no additional unit production on

[50] D.W. Belcher, Wage and Salary Administration, New York: Prentice Hall Inc. 1955, Appendix

their part and should be included. Others say that the company must pay extra for added inconvenience to employee for working long hours, and that overtime work is scheduled at company's discretion; therefore, exclude it from the fringe package. Chamber of Commerce does not include it as a fringe on their surveys but does include it in the payroll base for computing fringes as percent of payroll.

Unions call it "penalty pay". If it is included as a fringe it will introduce a very erratic element in expenditure calculations because of varying production demands. Also, the scheduling of overtime or shift work takes place only when the employer considers it to his benefit and not necessarily to his employees' benefit to do so.

BLS calls it premium pay but refers to it as extra compensation. It is included on their survey of Supplementary Employee Practices.

Pay For Time Not Worked

Management is unanimous in their opinion that these costs should be included as fringe benefits. The employee receives pay for absolutely no work. Chamber includes it in its biennial surveys.

Unions apparently recognize it as a supplementary benefit but maintain that it benefits both company and worker. Paid vacations and holidays are important as leisure time but not as additional income. They provide no more hourly or annual income for the worker than he would receive if he worked such time.

BLS lists it in its 1959 survey of Supplementary Practices

but refuses to take sides as to whether management or labor benefits.

Pay for Time Not Worked (Inside the Plant)

Management would mostly include this fringe because it represents loss in productive time that the employer pays for. (Exception is when continuous process is used and there is no loss in production.) Chamber includes it in their surveys.

Unions consider this item (wash up, etc.) as a condition of employment and not a benefit.

BLS has conducted studies on this specific item for years but has never referred to it as a supplemental benefit.

Health Benefits

Management is unanimous in their inclusion of the various benefits, e.g., hospitalization, surgical, sick and accident, etc., but most exclude company medical services as being direct benefit to the company. The Chamber includes health benefits in their surveys. (It is believed that "in house" medical services are excluded.)

Unions recognize as a fringe benefit but maintain that costs cannot be added to worker's hourly wage to show how much he really receives. These benefits help maintain a workers's income during a period of illness and do not increase the annual or hourly rate of pay.

BLS includes on their survey of supplemental practices for workers.

Security Benefits

Management would unanimously include these benefits as a cost to company and as a monetary benefit to the employee. Chamber includes them in their survey.

Unions concur that they are benefits but, as with health benefits, not to be added to hourly wages as a demonstration of increased income. They help maintain a worker's income after retirement but do not increase his present pay.

BLS includes them on their survey.

Services to Employees

Management would exclude most services as not being benefits and charge them off as the "cost of doing business". Relatively small expenditures, limited employee participation, mutual benefits, etc., are the primary reasons for excluding. Meals and recreation would be included by most companies as saving the employee money. Chamber includes only; (1) discounts on goods and services purchased from company by employees, (2) employee meals furnished by company, and (3) education expenditures.

Unions consider them to be conditions of employment.

BLS. (Could find no evidence that BLS has referred to these items as supplemental benefits.)

Bonuses, Profit Sharing, etc.

Management would definitely include. Chamber lists profit sharing and bonuses in their surveys. (The writer concludes that savings plans and other types are not prevalent enough to warrant listing at this time.)

Unions consider any deferred payment plans in the same category as pensions, i.e., recognize as a benefit but not as a sum that can be added to the hourly wage rate to indicate increase in wages.

BLS lists profit sharing and bonuses in their survey.

***

As a result of their studies over the years, the National Industrial Conference Board has arrived at the following characteristics as being common to most practices that companies consider as fringe benefits:

(1) Cost the employer money in that they add to the cost of a production hour of work.

(2) Add to the employees' take home pay because they give him more money for the same amount of work or supply a benefit he would otherwise have to buy.

(3) Are available to all or almost all of the employees.

(4) Are a variable cost in that they increase or decrease as work force changes in size.[51]

If the reader is now thoroughly confused as to what constitutes a fringe benefit, there is still one final hurdle before he can fully appreciate the figures presented in the statistical surveys. Even if we talk about the same expenditure by name, how do we price it?

The BLS survey presents figures in four different ways: (1) cents per pay roll hour; (2) cents per plant hour (excludes hours on paid vacation, holiday, etc.,); (3) percentage of straight-time payroll; and (4) percentage of gross

[51] Fringe Benefit Packages, (Studies in Personnel Policies, No. 143, New York: Nat'l Industrial Conf. Board. 1954), p.5

payroll. The Chamber of Commerce presents figures as: (1) cents per payroll hour; (2) percentage of gross payroll; and (3) dollars per year per employee. A demonstration of how various figures can be combined to render fringe benefits per employee as percentages is shown in Figure 1.

This tangle of terms and statistics prompted S. A. Raube, Director, Division of Personnel Administration for the National Industrial Conference Board to write:

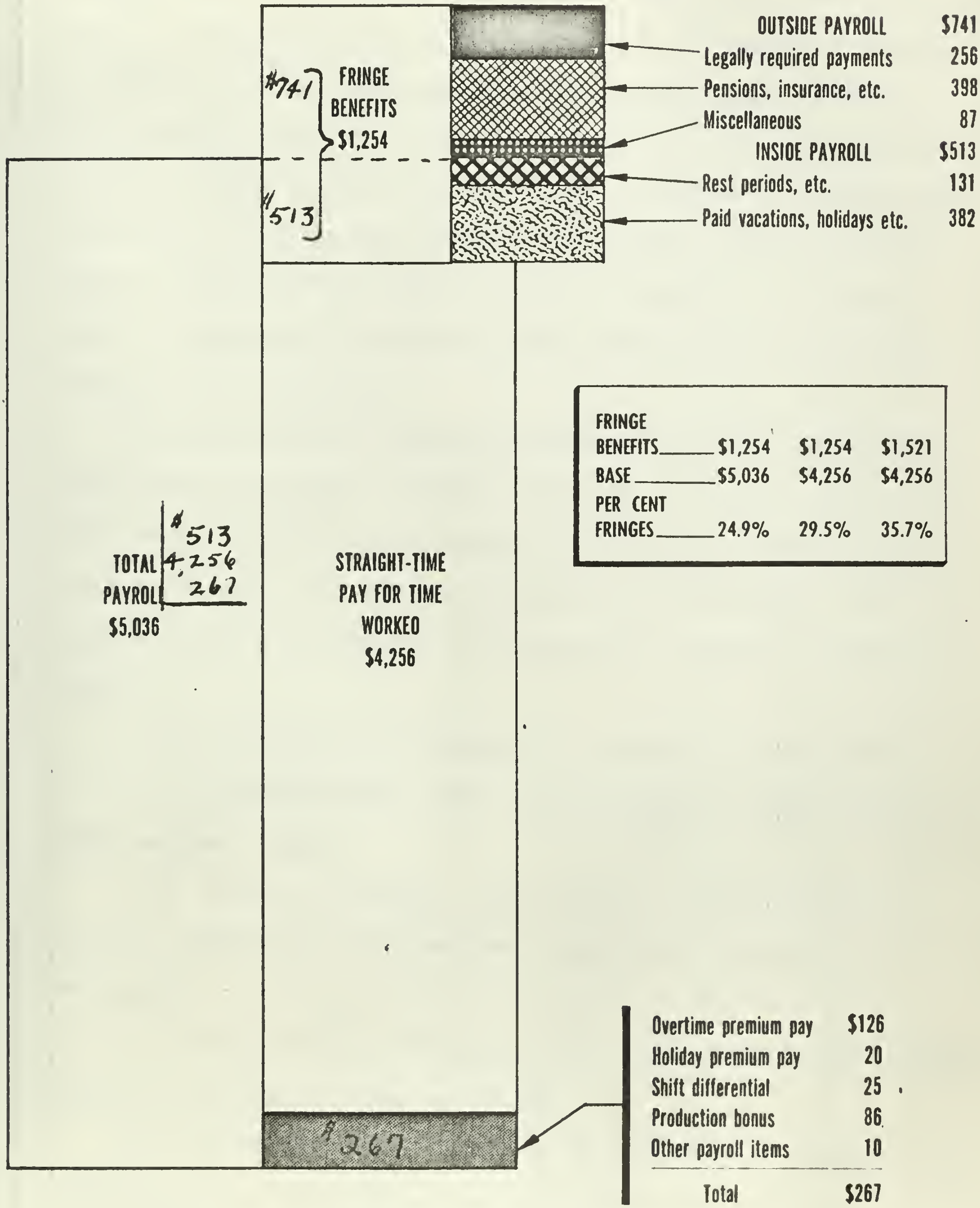
> When one company compares its fringe costs with another, they are often comparing apples with cabbages. Even after eliminating the cabbages, they recognized that they were comparing Baldwins with Winesaps.[52]

Now that the reader has been duly warned of most of the pitfalls, we can proceed to the latest statistics available in the field; the 1961 Chamber of Commerce survey of Fringe Benefits. (Whether there is agreement, as to whether certain items should be included in a survey entitled Fringe Benefits, or not, at least the reader should be able to scan the following figures with an "educated eye". As has been pointed out previously, no one else publishes such a comprehensive compilation of statistics on a recurring basis.) This survey is the eighth biennial survey for the Chamber (the results of the 1963 survey have not been published at the time of this writing) and was similar to the preceding one except for added detail and coverage.

Questionnaires were sent out to 2,774 firms, using samples from Poor's Register of Directors and Executives 1961 (omitting firms with under 100 employees). Large and medium

[52]Computing the Cost of Fringe Benefits, (Studies in Personnel Policy No. 128, New York: National Industrial Conference Board, 1952) p. 3

Annual Fringe Benefits and Earnings per Employee, 1961



SOURCE: U. S. Chamber of Commerce.

Figure I

sized public utilities, insurance companies, wholesale and retail firms, and 300 of the largest banks were added to this. Included in the 2,774 were the 1,064 firms replying in 1959. Replies were received from 1120 firms of which 748 had also replied in the 1959 survey. Figure 2. indicates to what extent some of the previously discussed benefits are actually in use in the various industries. (Note that the Chamber does not list Premium Pay in its list of fringes, but it does use it in establishing the base from which percentages are computed.)

Fringe benefits ranged from 8% to over 70% of the payrool with an average payment of 24.9%. (Based on gross payroll which includes premium pay; if straight-time pay had been used only, the average would have been 29.5%). See Figure 3 for a breakdown of fringes as a percent of gross payroll.

Some interesting sidelights uncovered by the survey:

(1) Larger firms tended to pay higher fringe benefits than smaller firms.

(2) Highest payments were made in the Northeastern States, followed by the Western, East North Central, and Southeast.

(3) The medium percentage was 23.9%, just slightly less than the arithmetic mean of 24.9%.

(4) Highest hourly earnings of $3.007 were reported by the petroleum industry; lowest were the hotels.

Per Cent of Companies Paying Fringe Benefits, 1961

Type of Payment	TOTAL, ALL INDUSTRIES	Manufacturing Industries: Total, all manufacturing	Food, beverages & tobacco	Textile products & apparel	Pulp, paper, lumber & furniture	Printing & publishing	Chemicals & allied products	Petroleum industry	Rubber & leather products	Stone, clay & glass products	Primary metal industries	Fabricated metal products (excl. mach. & trans. equipment)	Machinery (excluding electrical)	Electrical machinery, equipment & supplies	Transportation equipment	Instruments & miscellaneous manufacturing industries	Nonmanufacturing Industries: Total, all nonmanufacturing	Public utilities (electric, gas, water, telephone, etc.)	Trade (wholesale & retail)	Hotels	Banks, finance & trust companies	Insurance companies	Miscellaneous industries*
1. Legally required payments (employer's share only):																							
a. Old Age, Survivors and Disability Insurance	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	97	99	99	100	96	100	100	96
b. Unemployment Compensation	99	100	100	100	100	100	100	100	100	100	100	100	100	100	100	97	98	99	100	89	98	100	96
c. Workmen's compensation (including estimated cost for self-insured)	95	98	100	96	99	95	98	93	90	100	100	100	98	96	100	97	90	95	94	85	87	84	90
d. Railroad Retirement Tax, Railroad Unemployment Insurance, state sickness benefits insurance, etc.	12	11	9	8	17	31	15	0	20	5	6	12	8	7	0	21	14	9	22	82	20	10	24
2. Pension and other agreed-upon payments (employer's share only):																							
a. Pension plan premiums and pension payments not covered by insurance-type plan (net)	86	85	90	59	86	84	93	93	75	90	87	83	89	77	95	87	88	99	82	29	97	96	61
b. Life insurance premiums, death benefits, sickness, accident and medical-care insurance premiums, hospitalization insurance, etc. (net)	98	99	98	97	99	100	98	100	100	100	98	99	100	100	98	97	96	98	97	82	100	94	93
c. Contributions to privately financed unemployment benefit funds	8	11	3	0	3	0	2	0	35	20	40	14	12	5	28	3	1	0	8	4	0	0	0
d. Separation or termination pay allowances	17	10	14	8	4	19	15	43	10	15	6	4	8	16	6	14	26	20	25	4	31	89	19
e. Discounts on goods and services purchased from company by employees	15	9	17	19	3	6	19	21	5	10	2	9	3	12	6	14	25	35	53	0	23	16	4
f. Employee meals furnished by company	21	11	21	12	13	13	26	53	0	5	9	5	6	5	3	21	38	21	31	89	53	43	4
g. Miscellaneous payments (compensation payments in excess of legal requirements, payments to needy employees, etc.)	22	16	16	15	7	13	20	36	5	5	15	15	25	11	11	28	33	39	34	26	33	28	35
3. Paid rest periods, lunch periods, wash-up time, travel time, clothes-change time, get-ready time, etc.	63	66	74	46	67	63	70	53	70	45	40	81	74	64	81	79	55	51	69	26	64	39	48
4. Payments for time not worked:																							
a. Paid vacations and bonuses in lieu of vacation	97	97	91	92	97	94	98	100	95	95	94	97	99	98	98	93	97	100	94	81	98	100	86
b. Payments for holidays not worked	95	96	93	75	97	100	96	100	95	95	98	100	100	100	100	93	93	99	88	52	97	100	76
c. Paid sick leave	54	36	60	19	22	53	74	86	30	5	21	31	31	36	31	48	89	97	84	44	95	94	62
d. Payments for State or National Guard duty, jury, witness and voting pay allowances, payments for time lost due to death in family or other personal reasons, etc.	58	44	41	21	42	53	68	92	40	25	32	37	49	52	44	52	71	98	44	7	71	74	83
5. Other items:																							
a. Profit-sharing payments	17	15	16	13	14	26	20	29	25	10	11	6	14	21	17	10	20	4	87	7	48	9	10
b. Christmas or other special bonuses, service awards, suggestion awards, etc.	43	41	26	56	41	38	61	53	40	25	30	38	10	46	36	45	48	27	50	44	65	64	29
c. Employee education expenditures (tuition refunds, etc.)	16	12	17	6	7	0	22	14	5	3	4	15	13	26	2	24	23	23	5	4	22	48	14
d. Special wage payments ordered by courts, payments to union stewards, etc.	37	40	22	33	28	13	50	57	30	25	40	49	54	43	50	45	30	36	22	4	26	33	43

* Includes research, engineering, mining, warehousing, etc.

SOURCE: US. Chamber of Commerce

Figure 2

Average Fringe Payments

1961 Fringe Payments averaged 24.9% of payroll for all companies. These payments included:

Legally required payments (employer's share only)	5.1%
Pension and other agreed-upon payments (employer's share only)	7.9
Paid rest periods, lunch periods, etc.	2.6
Payments for time not worked	7.6
Profit-sharing payments, bonuses, etc.	1.7
Total	24.9%

The manufacturing companies paid 23.6%, somewhat less than the all-company average, while the nonmanufacturing companies paid 27.1%, as shown in Table 4.

Manufacturing firms had higher fringe payments than nonmanufacturing firms for Old-Age, Survivors, and Disability Insurance, Unemployment Compensation, workmen's compensation, insurance, and vacations.

Nonmanufacturing firms had higher payments for pensions, discounts on goods and services purchased from the company and sick leave.

Fringe Payments by Type of Payment, 1961

Type of Payment	Total, all companies %	Total, all manufacturing %	Total, all nonmanufacturing %
Total fringe payments as percent of payroll	24.9	23.6	27.1
1. Legally required payments (employer's share only)	5.1	5.5	4.4
a. Old Age, Survivors and Disability Insurance	2.7	2.7	2.6
b. Unemployment Compensation	1.5	1.7	1.1
c. Workmen's compensation (including estimated cost for self-insured)	0.8	1.0	0.5
d. Railroad Retirement Tax, Railroad Unemployment Insurance, state sickness benefits insurance, etc.**	0.1	0.1	0.2
2. Pension and other agreed-upon payments (employer's share only)	7.9	6.8	9.8
a. Pension plan premiums and pension payments not covered by insurance-type plan (net)	4.2	3.4	5.9
b. Life insurance premiums, death benefits, sickness, accident and medical-care insurance premiums, hospitalization insurance, etc. (net)	2.7	3.0	2.1
c. Contributions to privately financed unemployment benefit funds	0.1	0.1	*
d. Separation or termination pay allowances	0.1	*	0.1
e. Discounts on goods and services purchased from company by employees	0.1	0.1	0.2
f. Employee meals furnished by company	0.4	0.1	0.9
g. Miscellaneous payments (compensation payments in excess of legal requirements, payments to needy employees, etc.)	0.3	0.1	0.6
3. Paid rest periods, lunch periods, wash-up time, travel time, clothes-change time, get-ready time, etc.	2.6	2.8	2.2
4. Payments for time not worked	7.6	7.2	8.3
a. Paid vacations and bonuses in lieu of vacation	4.2	4.3	4.0
b. Payments for holidays not worked	2.5	2.4	2.5
c. Paid sick leave	0.7	0.4	1.4
d. Payments for State or National Guard duty, jury, witness and voting pay allowances, payments for time lost due to death in family or other personal reasons, etc.	0.2	0.1	0.4
5. Other items	1.7	1.3	2.4
a. Profit-sharing payments	0.8	0.6	1.2
b. Christmas or other special bonuses, service awards, suggestion awards, etc.	0.7	0.5	0.9
c. Employee education expenditures (tuition refunds, etc.)	*	*	0.1
d. Special wage payments ordered by courts, payments to union stewards, etc.	0.2	0.2	0.2
Total fringe payments as cents per payroll hour	61.6	59.5	65.6
Total fringe payments as dollars per year per employee	1254	1236	1335
Number of companies	1120	746	374

* Less than 0.05%.
** Figure shown is considerably less than legal rate, as most reporting companies had only a small proportion of employees covered by tax.

SOURCE: U. S. Chamber of Commerce

Figure 3

(5) The average payroll of all companies surveyed was composed of 94.7% straight-time pay, 2.5% overtime, .4% holiday premium, and .5% shift differential. (The balance consisted of miscellaneous payments, e. g. cost of living, etc.,)

In regards to (5) both the Chamber of Commerce and the Bureau of Labor Statistics surveys treat premium pay in a manner that could mislead the reader and even be considered as understating the statistics on premium pay. Take, for example, the petroleum worker at $3.00 per hour straight time pay. For overtime, say he receives the normal pay and a half or $4.50 per hour. The surveys would carry this as $3.00 straight time pay and $1.50 premium pay and not as $4.50 premium pay that it actually should be. If the employee works 100 hours overtime during the year, the surveys would indicate that he had been paid $150/$6540 or 2.3% overtime when actually overtime amounted to $450/$6250 or 7.2%. (This latter figure would show over three times the amount of pay for overtime than the surveys. This method would also decrease the straight time pay base and therefore increase the overall percentage of fringe benefits on the surveys using STP as a base.)

Figure 4 indicates the fringe payments as cents per payroll hour. This is the method that the labor union prefer for bargaining comparability. At this point it would be well to reiterate that these figures represent, more or less, the management side of the house. The 61.6¢ average for all the firms includes many items which the unions would never use as an indicator of the worker's real income or even as representative of the company's <u>costs</u>. However, these figures are

Fringe Payments as Cents Per Payroll Hour, by Type of Payment and Industry Groups, 1961

Type of Payment	TOTAL, ALL INDUSTRIES	Manufacturing Industries: Total, all manufacturing	Food, beverages & tobacco	Textile products & apparel	Pulp, paper, lumber & furniture	Printing & publishing	Chemicals & allied products	Petroleum industry	Rubber & leather products	Stone, clay & glass products	Primary metal industries	Fabricated metal products (excl. mach. & trans. equipment)	Machinery (excluding electrical)	Electrical machinery, equipment & supplies	Transportation equipment	Instruments & miscellaneous manufacturing industries
Total fringe payments as cents per payroll hour	61.6	59.5	61.5	36.8	46.9	56.4	70.8	81.2	63.7	55.6	69.4	61.5	63.3	58.6	63.4	62.0
1. Legally required payments (employer's share only)	12.4	13.9	14.2	11.4	12.4	11.5	12.6	12.1	13.0	15.2	16.3	14.5	13.7	13.3	14.5	12.8
a. Old Age, Survivors and Disability Insurance	6.7	6.8	6.5	5.7	6.0	7.0	6.7	6.9	6.6	6.7	7.0	6.6	6.7	6.5	7.0	6.7
b. Unemployment Compensation	3.7	4.3	4.6	4.0	3.4	3.4	3.1	2.7	3.9	4.6	4.9	4.7	4.0	4.8	5.0	4.4
c. Workmen's compensation (including estimated cost for self-insured)	1.7	2.5	3.1	1.5	2.8	0.8	2.6	2.4	2.2	3.9	4.1	3.0	2.7	1.8	2.5	1.5
d. Railroad Retirement Tax, Railroad Unemployment Insurance, state sickness benefits insurance, etc.**	0.3	0.3	**	0.2	0.2	0.3	0.2	0.1	0.3	**	0.3	0.2	0.8	0.2	**	0.2
2. Pension and other agreed-upon payments (employer's share only)	19.8	17.2	18.6	8.3	11.6	11.6	21.0	33.0	20.0	17.3	23.9	17.8	19.8	15.3	17.3	17.5
a. Pension plan premiums and pension payments not covered by insurance-type plan (net)	10.4	8.6	9.9	3.2	6.0	5.9	12.0	24.6	9.5	8.2	9.5	8.9	9.9	7.5	8.9	9.8
b. Life insurance premiums, death benefits, sickness, accident and medical-care insurance premiums, hospitalization insurance, etc. (net)	6.7	7.6	7.0	4.2	5.5	5.0	7.7	5.4	10.0	7.5	12.5	7.9	8.3	7.0	7.5	6.7
c. Contributions to privately financed unemployment benefit funds	0.3	0.3	0.1	**	0.1	**	**	**	0.5	1.3	1.4	0.5	0.6	0.2	0.8	**
d. Separation or termination pay allowances	0.2	0.1	0.1	0.1	**	0.1	0.1	0.9	**	0.2	**	0.1	0.1	0.2	0.1	0.1
e. Discounts on goods and services purchased from company by employees	0.4	0.2	0.5	0.2	**	**	0.2	0.3	**	**	**	0.1	**	**	**	0.2
f. Employee meals furnished by company	1.0	0.2	0.5	0.2	**	**	0.5	0.3	**	**	**	0.1	0.8	0.2	**	0.2
g. Miscellaneous payments (compensation payments in excess of legal requirements, payments to needy employees, etc.)	0.8	0.2	0.5	0.4	**	0.6	0.5	1.5	**	0.1	0.5	0.2	0.6	0.2	**	0.5
3. Paid rest periods, lunch periods, wash-up time, travel time, clothes-change time, get-ready time, etc.	6.4	7.1	9.0	4.3	5.8	8.1	9.0	5.7	9.8	5.1	5.1	8.6	6.7	8.0	8.9	9.0
4. Payments for time not worked	18.8	18.0	17.2	10.1	14.4	19.6	21.0	26.5	18.8	16.8	20.1	19.0	20.6	17.9	20.8	18.5
a. Paid vacations and bonuses in lieu of vacation	10.6	10.8	10.2	6.5	9.2	10.6	11.3	15.1	12.0	10.8	13.0	11.6	12.3	10.5	12.2	10.8
b. Payments for holidays not worked	6.0	6.0	5.3	3.2	4.8	7.5	6.7	6.3	6.4	5.4	6.5	6.8	7.2	6.3	7.2	6.2
c. Paid sick leave	1.7	1.0	1.2	0.2	0.2	1.4	2.3	4.5	0.2	**	0.3	0.4	0.8	0.8	0.8	1.3
d. Payments for State or National Guard duty, jury, witness and voting pay allowances, payments for time lost due to death in family or other personal reasons, etc.	0.5	0.2	0.5	0.2	0.2	0.1	0.7	0.6	0.2	0.1	0.3	0.2	0.3	0.3	0.6	0.2
5. Other items	4.2	8.3	2.5	2.7	2.7	5.6	7.2	3.9	2.1	1.7	4.0	1.6	2.5	4.1	1.9	4.2
a. Profit-sharing payments	2.0	1.5	1.4	0.4	1.4	3.6	2.6	2.1	1.2	1.0	2.7	0.2	0.8	2.3	0.8	1.8
b. Christmas or other special bonuses, service awards, suggestion awards, etc.	1.7	1.3	0.9	1.5	1.1	1.7	3.1	0.6	0.7	0.5	0.5	0.9	1.1	1.5	0.3	1.8
c. Employee education expenditures (tution refunds, etc.)	**	**	**	**	**	**	**	**	**	**	**	0.1	**	0.1	**	0.1
d. Special wage payments ordered by courts, payments to union stewards, etc.	0.5	0.5	0.2	0.8	0.2	0.3	1.5	1.2	0.2	0.2	0.8	0.4	0.6	0.2	0.8	0.5

Type of Payment	Nonmanufacturing Industries: Total, all nonmanufacturing	Public utilities (electric, gas, water, telephone, etc.)	Trade (wholesale & retail)	Hotels	Banks, finance & trust companies	Insurance companies	Miscellaneous industries*
Total fringe payments as cents per payroll hour	65.6	71.4	50.2	27.5	77.0	64.3	68.8
1. Legally required payments (employer's share only)	10.6	10.5	11.9	9.2	9.7	9.3	15.2
a. Old Age, Survivors and Disability Insurance	6.3	6.7	6.1	4.2	6.0	6.8	7.0
b. Unemployment Compensation	2.6	1.9	3.6	2.4	3.0	2.8	2.8
c. Workmen's compensation (including estimated cost for self-insured)	1.2	1.4	2.0	1.8	0.5	0.2	8.7
d. Railroad Retirement Tax, Railroad Unemployment Insurance, state sickness benefits insurance, etc.**	0.5	0.5	0.2	0.8	0.2	**	1.7
2. Pension and other agreed-upon payments (employer's share only)	23.8	26.2	13.8	11.7	27.1	24.1	25.4
a. Pension plan premiums and pension payments not covered by insurance-type plan (net)	14.3	18.7	4.5	0.9	17.7	17.2	5.9
b. Life insurance premiums, death benefits, sickness, accident and medical-care insurance premiums, hospitalization insurance, etc. (net)	5.1	5.8	3.4	2.4	6.2	4.2	5.9
c. Contributions to privately financed unemployment benefit funds	**	**	**	0.8	**	**	**
d. Separation or termination pay allowances	0.2	**	**	**	0.2	0.2	0.8
e. Discounts on goods and services purchased from company by employees	0.5	0.6	3.8	**	0.2	0.2	**
f. Employee meals furnished by company	2.2	0.3	1.6	7.4	2.1	1.6	0.1
g. Miscellaneous payments (compensation payments in excess of legal requirements, payments to needy employees, etc.)	1.5	0.8	0.5	0.7	0.7	0.7	13.2
3. Paid rest periods, lunch periods, wash-up time, travel time, clothes-change time, get-ready time, etc.	5.8	5.6	7.0	1.6	6.2	4.4	7.0
4. Payments for time not worked	20.1	27.1	13.4	4.1	20.4	22.1	17.5
a. Paid vacations and bonuses in lieu of vacation	9.7	18.1	7.5	3.1	9.6	9.8	9.3
b. Payments for holidays not worked	6.0	7.3	4.1	0.7	6.4	7.7	5.4
c. Paid sick leave	3.4	4.7	1.6	0.3	3.7	8.7	2.5
d. Payments for State or National Guard duty, jury, witness and voting pay allowances, payments for time lost due to death in family or other personal reasons, etc.	1.0	2.0	0.2	**	0.7	0.9	0.8
5. Other items	5.8	2.0	4.1	0.9	18.6	4.4	8.7
a. Profit-sharing payments	2.9	0.6	2.3	0.4	7.8	1.4	1.7
b. Christmas or other special bonuses, service awards, suggestion awards, etc.	2.2	0.6	1.6	0.5	5.1	2.3	1.7
c. Employee education expenditures (tution refunds, etc.)	0.2	**	**	**	0.5	0.2	**
d. Special wage payments ordered by courts, payments to union stewards, etc.	0.5	0.8	0.2	**	0.2	0.5	0.8

* Includes research, engineering, mining, warehousing, etc.
** Less than 0.05¢.

SOURCE: U. S. Chamber of commerce

Figure 4

the best available to indicate average "expenditures" and to obtain a comparison with previous years and a comparison among industries.

Figure 5 shows costs as percent of payroll for the various categories of industry. It is just a more detailed presentation of the over all figures presented in Figure 3. (Figure 6 is a bar graph of the same information.)

Figure 7 presents the fringe package so that the employer can educate the employee on the total dollar value per year of his fringes. In 1961, the average total fringe benefit per employee was $1254. The unions object to this type of presentation as being propaganda. They maintain that some of the benefits are mutual to the company and to the worker; some of the so-called costs really lead to increased production; and that the companies interchange the words "benefits", "costs", and "expenditures" too freely. Whatever the semantics at the bargaining table, management is rapidly becoming concerned over the fact that their "expenditures" for the fringes represent an amount equal to one quarter of their payroll.

Average Fringe Costs as Per Cent of Payroll, for Companies Paying Fringe Benefits, 1961

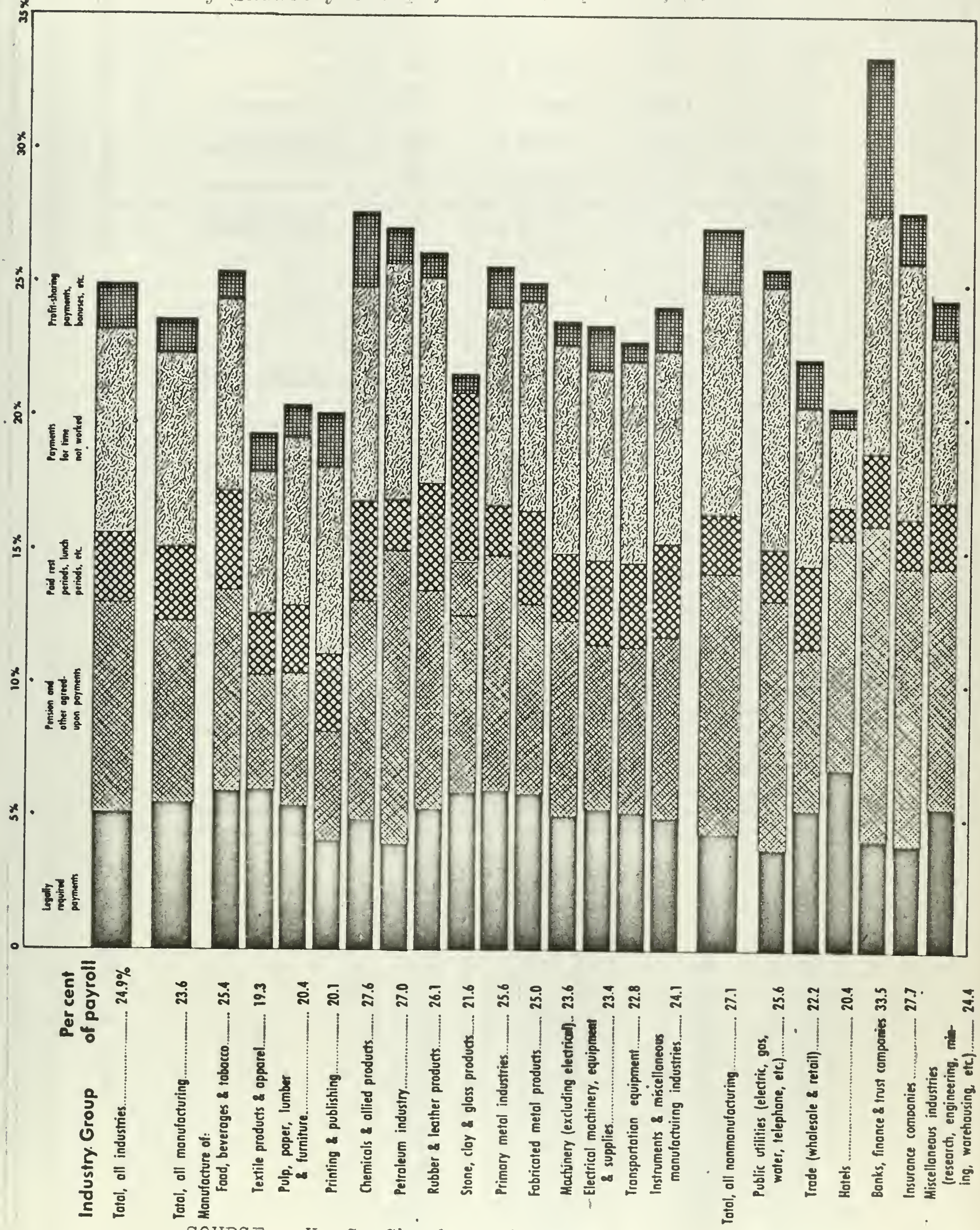
Type of Payment	TOTAL, ALL INDUSTRIES	Manufacturing Industries															Nonmanufacturing Industries						
		Total, all manufacturing	Food, beverages & tobacco	Textile products & apparel	Pulp, paper, lumber & furniture	Printing & publishing	Chemicals & allied products	Petroleum industry	Rubber & leather products	Stone, clay & glass products	Primary metal industries	Fabricated metal products (excl. mach. & trans. equipment)	Machinery (excluding electrical)	Electrical machinery, equipment & supplies	Transportation equipment	Instruments & miscellaneous manufacturing industries	Total, all nonmanufacturing	Public utilities (electric, gas, water, telephone, etc.)	Trade (wholesale & retail)	Hotels	Banks, finance & trust companies	Insurance companies	Miscellaneous industries*
1. Legally required payments (employer's share only):																							
a. Old Age, Survivors and Disability Insurance	2.7	2.7	2.7	3.0	2.6	2.5	2.6	2.8	2.7	2.6	2.6	2.7	2.5	2.6	2.5	2.7	2.6	2.4	2.7	3.2	2.6	2.7	2.6
b. Unemployment Compensation	1.5	1.7	1.9	2.1	1.5	1.2	1.2	0.9	1.6	1.8	1.8	1.9	1.5	1.9	1.8	1.8	1.1	0.7	1.6	2.0	1.8	1.2	1.0
c. Workmen's compensation (including estimated cost for self-insured)	0.8	1.0	1.3	0.9	1.2	0.8	1.0	0.9	1.0	1.5	1.5	1.2	1.0	0.7	0.9	0.6	0.6	0.5	1.0	1.5	0.2	0.1	1.4
d. Railroad Retirement Tax, Railroad Unemployment Insurance, state sickness benefits insurance, etc.***	0.6	0.5	0.3	0.7	0.6	0.2	0.8	**	0.5	0.5	0.9	0.6	0.9	0.8	**	0.5	0.8	1.4	0.4	1.8	0.4	0.3	2.5
2. Pension and other agreed-upon payments (employer's share only):																							
a. Pension plan premiums and pension payments not covered by insurance-type plan (net)	4.9	4.0	4.6	2.9	3.0	2.5	5.1	3.8	5.2	3.6	4.0	4.3	4.2	3.9	3.4	4.4	6.7	6.8	2.4	2.4	7.9	7.7	3.4
b. Life insurance premiums, death benefits, sickness, accident and medical-care insurance premiums, hospitalization insurance, etc. (net)	2.8	3.0	3.0	2.3	2.4	1.8	3.1	1.8	4.1	2.9	4.7	3.2	3.1	2.8	2.8	2.7	2.2	2.1	1.5	2.2	2.7	1.9	2.8
c. Contributions to privately financed unemployment benefit funds	1.2	1.1	1.0	**	1.3	**	0.8	**	0.6	1.9	1.2	1.8	1.6	0.5	1.0	0.4	1.7	**	0.2	5.6	**	**	**
d. Separation or termination pay allowances	0.8	0.5	0.3	0.4	0.2	0.2	0.3	0.7	**	0.7	0.1	1.8	0.6	0.4	0.1	0.2	0.3	0.1	0.1	0.1	0.2	0.2	0.3
e. Discounts on goods and services purchased from company by employees	0.8	0.5	1.0	0.7	0.8	0.1	0.5	0.4	0.3	0.1	0.1	0.5	0.1	0.5	0.1	0.6	1.0	0.7	3.2	**	0.6	0.6	0.3
f. Employee meals furnished by company	1.9	0.6	0.8	0.7	0.2	0.2	0.6	0.2	**	0.2	0.2	0.5	0.9	1.3	0.2	0.5	2.3	0.5	2.1	6.2	1.8	1.6	0.5
g. Miscellaneous payments (compensation payments in excess of legal requirements, payments to needy employees	1.2	0.8	1.0	0.9	0.4	1.8	0.8	1.4	0.8	0.6	1.8	0.5	0.9	0.8	0.3	0.6	1.9	0.8	0.7	1.9	0.9	1.0	13.4
3. Paid rest periods, lunch periods, wash-up time, travel time, clothes change time, get-ready time etc.	4.1	4.2	4.8	4.9	3.7	4.6	4.9	3.6	5.6	4.4	4.8	4.3	3.4	4.6	4.0	4.4	4.1	3.9	4.5	4.6	4.2	4.9	5.2
4. Payments for time not worked:																							
a. Paid vacations and bonuses in lieu of vacation	4.8	4.4	4.5	3.7	4.1	4.0	4.5	5.0	4.2	4.3	5.1	4.8	4.6	4.3	4.5	4.5	4.1	4.7	3.5	2.8	4.3	4.2	3.8
b. Payments for holidays not worked	2.6	2.6	2.4	2.2	2.2	2.7	2.7	2.1	2.6	2.2	2.4	2.8	2.7	2.5	2.6	2.6	2.7	2.6	2.0	1.0	2.9	3.3	2.5
c. Paid sick leave	1.3	1.2	0.8	0.4	0.5	0.9	1.2	1.7	0.5	0.3	0.7	0.6	0.9	0.8	1.0	1.0	1.6	1.8	0.3	0.4	1.7	1.7	1.4
d. Payments for State or National Guard duty, jury, witness and voting pay allowances, payments for time lost due to death in family or other personal reasons, etc.	0.4	0.2	0.5	0.2	0.1	0.1	0.4	0.2	0.2	0.2	0.3	0.3	0.2	0.1	0.4	0.2	0.6	0.7	0.2	0.1	0.5	0.6	0.4
5. Other items:																							
a. Profit-sharing payments	4.7	3.6	3.6	1.4	4.1	5.1	4.7	2.5	2.1	4.5	3.3	2.1	2.2	4.1	1.8	6.7	6.0	5.1	2.8	4.3	7.1	7.1	6.2
b. Christmas or other special bonuses, service awards, suggestion awards, etc.	1.4	1.1	1.6	1.4	1.1	1.5	2.0	0.6	0.7	0.7	0.6	0.9	1.1	1.2	0.3	1.5	1.9	0.6	1.5	0.9	3.4	1.5	2.0
c. Employee education expenditures (tuition refunds, etc.)	0.2	0.1	0.1	0.1	0.1	**	0.1	0.1	0.2	0.3	0.2	0.1	0.2	0.1	0.1	0.2	0.3	0.1	0.3	0.1	0.8	0.2	0.1
d. Special wage payments ordered by courts, payments to union stewards, etc.	0.5	0.5	0.5	1.1	0.4	1.0	1.1	0.6	0.8	0.4	0.6	0.4	0.8	0.8	0.5	0.3	0.6	0.7	0.6	0.2	0.5	0.7	0.2

* Includes research, engineering, mining, warehousing, etc.
** No companies reporting this payment.
*** Figure shown is considerably less than legal rate, as most reporting companies had only a small proportion of employees covered by tax.

SOURCE: U.S. Chamber of Commerce

Figure 5

Fringe Payments as Per Cent of Payroll, by Industry Groups, 1120 Companies, 1961



SOURCE: U. S. Chamber of Commerce

Figure 6

Fringe Payments as Dollars Per Year Per Employee, by Type of Payment and Industry Groups, 1961

Type of Payment	TOTAL, ALL INDUSTRIES	Manufacturing Industries															Nonmanufacturing Industries						
		Total, all manufacturing	Food, beverages & tobacco	Textile products & apparel	Pulp, paper, lumber & furniture	Printing & publishing	Chemicals & allied products	Petroleum industry	Rubber & leather products	Stone, clay & glass products	Primary metal industries	Fabricated metal products (excl. mach. & trans. equipment)	Machinery (excluding electrical)	Electrical machinery, equipment & supplies	Transportation equipment	Instruments & miscellaneous manufacturing industries	Total, all nonmanufacturing	Public utilities (electric, gas, water, telephone, etc.)	Trade (wholesale & retail)	Hotels	Banks, finance & trust companies	Insurance companies	Miscellaneous industries*
Total fringe payments as dollars per year per employee	1254	1236	1314	767	994	1156	1505	1719	1302	1162	1377	1258	1319	1203	1312	1312	1335	1497	1059	601	1522	1259	1390
1. Legally required payments (employer's share only)	256	288	306	235	263	235	265	254	263	317	322	294	287	274	299	271	217	225	251	200	190	182	307
a. Old Age, Survivors and Disability Insurance	134	141	140	115	127	143	141	144	133	140	140	134	142	136	144	141	128	144	127	91	118	123	142
b. Unemployment Compensation	76	89	98	84	73	69	65	57	80	96	97	95	84	97	103	92	54	41	76	53	59	54	57
c. Workmen's compensation (including estimated cost for self-insured)	40	53	67	32	58	17	54	51	45	80	80	60	56	86	52	33	25	29	43	38	9	4	74
d. Railroad Retirement Tax, Railroad Unemployment Insurance, state sickness benefits insurance, etc.**	6	5	1	4	5	6	5	2	5	1	5	5	5	5	**	5	10	11	5	18	4	1	34
2. Pension and other agreed-upon payments (employer's share only)	398	357	395	173	247	236	448	700	411	360	474	361	410	318	359	370	483	548	291	257	537	478	514
a. Pension plan premiums and pension payments not covered by insurance-type plan (net)	211	178	212	68	126	121	256	522	194	172	188	180	207	154	184	207	291	392	95	21	350	336	120
b. Life insurance premiums, death benefits, sickness, accident and medical-care insurance premiums, hospitalization insurance, etc. (net)	136	157	150	88	117	103	163	115	205	156	248	160	173	144	155	141	103	122	71	53	128	82	119
c. Contributions to privately financed unemployment benefit funds	4	5	1	**	1	**	**	**	10	26	27	10	11	5	17	**	**	**	**	6	**	**	**
d. Separation or termination pay allowances	5	2	2	1	**	1	2	19	1	5	**	3	2	5	2	1	5	**	1	**	5	4	6
e. Discounts on goods and services purchased from company by employees	6	5	10	4	1	**	5	6	**	**	**	2	**	**	**	5	10	11	81	**	4	5	**
f. Employee meals furnished by company	20	5	10	4	1	**	11	6	1	**	**	2	6	5	**	5	44	6	33	162	41	32	1
g. Miscellaneous payments (compensation payments in excess of legal requirements, payments to needy employees, etc.)	16	5	10	8	1	11	11	82	**	1	11	4	11	5	1	11	30	17	10	15	14	14	268
3. Paid rest periods, lunch periods, wash-up time, travel time, clothes-change time, get-ready time, etc.	131	147	191	92	121	167	191	121	199	107	102	175	140	163	184	190	108	117	148	35	123	86	142
4. Payments for time not worked	382	377	366	211	305	403	447	560	384	342	397	391	431	364	430	392	409	567	282	89	405	432	353
a. Paid vacations and bonuses in lieu of vacation	211	225	217	135	195	218	240	318	244	226	258	236	257	216	253	229	197	275	158	68	191	191	188
b. Payments for holidays not worked	126	126	113	68	102	155	142	134	130	113	129	140	151	128	149	131	123	152	86	15	127	150	108
c. Paid sick leave	35	21	26	4	4	29	49	95	5	**	5	10	17	15	17	27	69	99	33	6	78	78	51
d. Payments for State or National Guard duty, jury, witness and voting pay allowances, payments for time lost due to death in family or other personal reasons, etc.	10	5	10	4	4	1	16	18	5	8	5	5	6	5	11	5	20	41	5	**	14	18	6
5. Other items	87	67	56	56	58	115	154	84	45	36	82	87	51	84	40	89	118	40	87	20	267	86	74
a. Profit-sharing payments	40	31	31	8	29	75	55	45	25	21	54	5	17	46	17	38	59	11	48	9	154	27	34
b. Christmas or other special bonuses, service awards, suggestion awards, etc.	36	26	20	32	24	34	65	13	15	10	11	20	22	31	6	38	44	11	33	11	100	45	34
c. Employee education expenditures (tuition refunds, etc.)	1	**	**	**	**	**	1	1	**	**	1	2	1	2	**	2	5	1	1	**	9	5	**
d. Special wage payments ordered by courts, payments to union stewards, etc.	10	10	5	16	5	6	33	25	5	5	16	10	11	5	17	11	10	17	5	**	4	9	6

* Includes research, engineering, mining, warehousing, etc.
** Less than 50¢.

SOURCE: U.S. Chamber of Commerce

Figure 7

CHAPTER IV

THOUGHTS ON THE PROBLEM

It is all very well to criticize the Chamber of Commerce and BLS surveys, but it should be remembered that, properly interpreted, they serve a very useful purpose at the bargaining table. The "fringe package" is a relatively new problem area for both labor and management negotiators. Ground rules are still being developed by which to play the game. Labor and management have been accused of muddling into agreements on fringe benefits without either side being fully aware of the ultimate costs or benefits involved or without considering better alternatives. (The "innocuous" proposal to reduce retirement age from 65 to 60 in order to alleviate the unemployment situation would increase the cost of pension plans by 50%.)[53] Before attempting to draw conclusions, let us pause for a brief consolidation and summarization of where fringes stand today.

The growth of such a procedure as granting benefits to supplement regular wages stems from the conscientiousness of a few pioneering employers and the workers' concern for security from unemployment due to illness or other reasons. When the "Great Depression" slowed the private programs, society expressed its concern for security through the Federal Government in the form of the Social Security and Unemployment Compensation Laws of the 1930's. With the increase of union

[53] A. J. Mueche, Successful Pension Planning, New York: Prentice Hall 1949, p. 161.

strength in the late '30's, fringes were given a mild rejuvenation due to: (1) company paternalism as a means of countering union gains, and (2) pressure from the unions for better wages and working conditions.

The real impetus to the growth of fringes was World War II. The combination of wage stabilization and tax policy in a marginal labor market revived the older supplemental benefit plans and spawned several new ones. In the post war years the initial momentum was reinforced by; (1) continued high corporation and personal income tax policy, (2) union and management desires for workers to share in the economic prosperity without the stigma of contributing to the wage-price spiral (fringe benefits are not as identifiable as wage increases as direct pay increases), (3) temporary reinstatement of wage stabilization controls during the Korean conflict, (4) workers greater concern for job security, financial protection in emergencies, and retirement income rather than higher present pay, (5) realization by both management and labor that the individual cannot amass the capital necessary, under today's tax structure, to provide for retirement, and (6) management's desire to attract and keep skilled labor (based on the belief that fringes are more effective than higher pay in this competition).

In the background are two very strong reasons for support of fringe benefits that have never been subjected to statistical survey but which influence all negotiations: (1) management's appreciation of the fact that comparable cents-per-hour increases in straight-time pay would pyramid costs because

premium pay, social security taxes, and almost all other fringe expenditures would be calculated on higher wage base;[54] and (2) the belief of union leaders that more employment opportunities will be made available through the reduced working time brought about by certain fringes (increased length of paid vacations, early retirement, etc.)

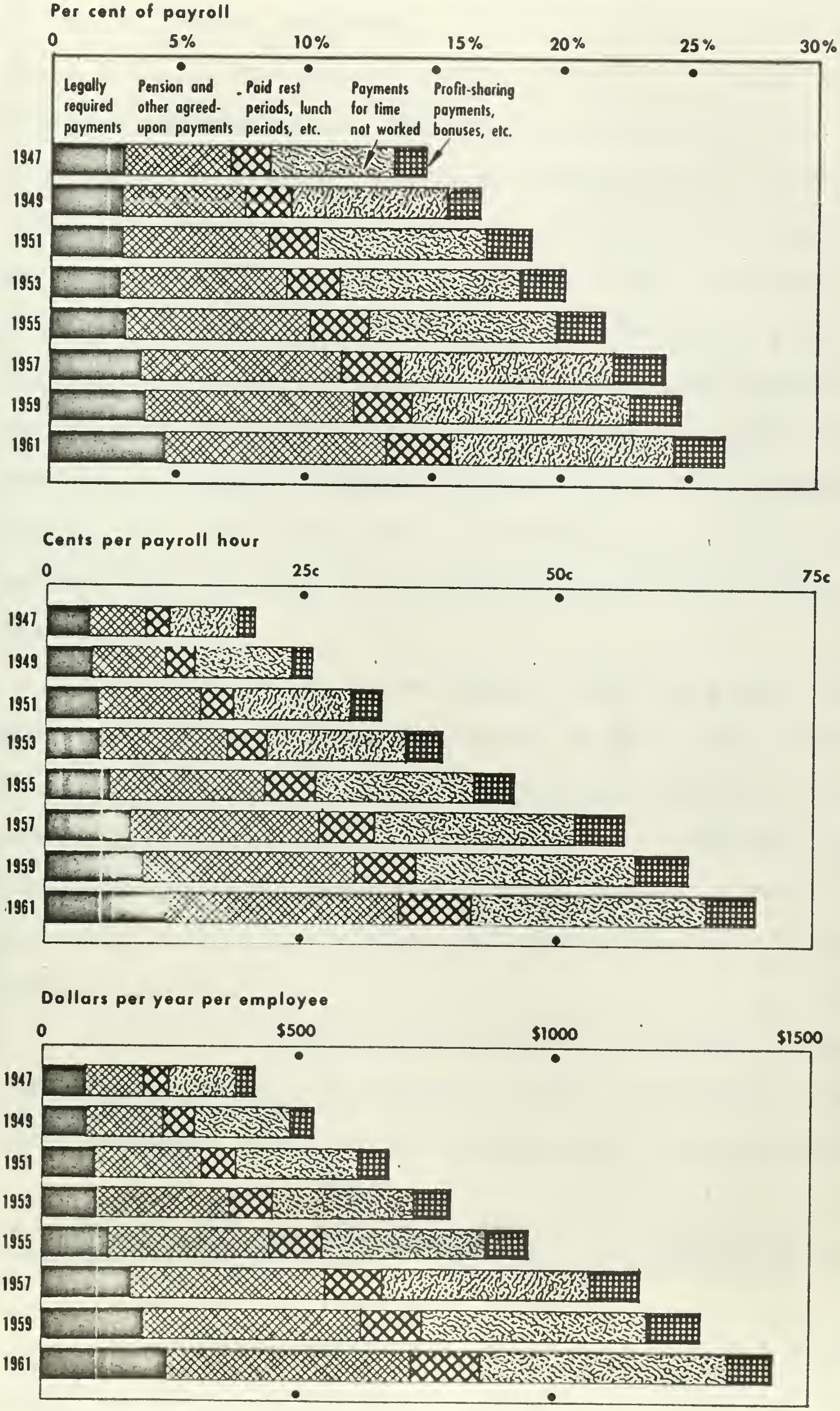
This phenomenal post war growth in fringe expenditures is shown by the bar graph in Figure 8. (Although there is a difference of opinion as to what constitutes a fringe and how to cost account fringe benefits, at least the graphs are useful for comparative purposes. The Chamber has consistently applied the same ground rules in their surveys and in Figure 8, note that the statistics are for 91 identical companies over the 14 years.) The one BLS survey available for comparison (1959) differs in the overall percentage from the Chamber's survey by 8%. This is due to the difference in fringes included in the package. Comparison between individual benefits, where possible, reveals only slight differences.

With our position consolidated, we will now proceed to examine some of the thoughts which have been stimulated by the emergence of this new management-labor "problem area."

(1) Objections have been voiced as to fringes limiting the mobility of the labor force. Transfer between jobs results in loss of accumulated benefits and delay in acquiring service requirements for qualification in the benefits offered in a new job. This area has been analyzed by

[54] Wistert, op. cit., p. 6

Comparison of 1947, 1949, 1951, 1953, 1955, 1957, 1959 and 1961 Fringe Payments for 91 Identical Companies



SOURCE: U.S. Chamber of Commerce

Figure 8

Dr. J. H. Foegan, Assistant Professor of Business, Winona State College, Dr. John D. Stanley, Associate Professor, Business Administration, University of Rochester, and Dr. Majorie T. Stanley, Economist, specializing in labor and industrial relations. In general, it is conceded that fringes do contribute to immobility. However, so do employees' investment in seniority, occupational specialization, and family tendency to remain with friends, relatives, and schools in the present community. The present trend is towards establishment of the worker's vested rights in the various pension funds, etc., after 3-5 years. This will tend to nullify current objections to the immobility generated by fringe benefit practices.[55]

(2) Peter Henle, in an address before the Labor-Management and Capital Planning Conference in March 1962, wondered if the overall pursuit of job security has resulted in more stability but fewer jobs. The fear has been expressed that management finds it less costly to pay present workers overtime than to hire new workers and outfit them with all the fringe benefits.[56]

Overtime in manufacturing industries averaged almost three hours per week per worker in 1963. Secretary of Labor, Wirtz estimated that if this overtime had been performed by

[55] J. H. Foegan, John D. and Majorie Stanley, "Re-Examining Fringe Benefits," Personnel Administration 25, May 1962, pp. 13-28.

[56] Peter Henle, Assistant Commissioner of Labor Statistics, U.S. Dept. of Labor, "Current Trends in Fringe Benefits", (Speech before Labor-Management and Capital Planning Conference, Chicago, March 16, 1962) p. 15.

other workers, it would have meant over 900,000 additional jobs. The current union proposal, backed by President Johnson, to pay double time rates for overtime is apparently a step towards forcing industry to hire more workers. Industry considers this action as excessive interference by government. Doubts as to whether the desired effect will result have been expressed. Some employers have indicated that the costs for either additional workers or increased overtime will result in reduced production and will increase unemployment as marginal and special orders are refused.[57] (At present, Congress seems in no mood to be rushed into writing the revised law.) This is an area that deserves critical examination that is beyond the scope of this paper.

(3) Francis Wistert in his book on fringes has said that one of the important results,

> has been an ideological one-the preservation of the employer's right to provide benefits for his employees voluntarily. Had industry failed to provide those benefits thought essential by social conscience, our country could well be throttled by socialized programs.[58]

It is certainly true that in European countries the government's <u>direct participation</u> in worker security is far greater than we experience in the United States. In Germany, France, and Italy, the employer is taxed up to 44%, 50% and 75%, respectively, of his total wage costs for "social charges". In Sweden, New Zealand, and Australia, where the governments are definitely welfare minded, the workers' welfare is paid for

[57]"Why the New Worry About Overtime," <u>U. S. News and World Report</u>, Jan. 20, 1964, p. 89+.

[58]Wistert, <u>op. cit.</u>, pp. 144-145.

out of general tax revenues. In the United Kingdom, the "cradle-to-grave" welfare system costs the employer only 3.3% directly; general tax revenues plus contributions from workers' pay most of the bill.[59]

Have we, with our system of limited direct government participation, allowed relatively few of the labor force to be provided with adequate retirement (etc.) benefits while the many are inadequately provided for? There are no pat answers. It would appear that our system has already commenced compensatory action. The small firms which were fighting for their lives because of their inability to match financially the growing fringe package of the big companies, have teamed with the unions in multi-employer plans. Government, in 1962, provided assistance indirectly by permitting tax deductions on one half of the contributions of self employed people towards self-employed pension plans. Insurance companies are tailoring programs and handling the administrative details of insurance plans that normally would have been out of reach of smaller firms.

Again, there is no pat answer as to which system is better, European or American. Of interest, is the trend for many European business firms to offer extra benefits directly to their employees as they bid for workers in a tightening skilled-labor market. Peter Henle, in the address mentioned previously, stated:

It seems to me a tribute to the American system that

[59] First National City Bank Monthly Letter, New York, The First National City Bank, Dec 1960, p. 1-2.

neither labor nor management is interested in adopting the European arrangement. Unions doubt that it would provide their members with greater benefits and employers doubt that such a system would yield them lower costs. The present system with its emphasis on decentralized decision making can meet the varying needs of specific groups of workers and employers.[60]

[60] Peter Henle, op. cit., p. 18.

CHAPTER V

TRENDS IN FRINGE BENEFITS

Based on the steady growth pattern indicated by fringe benefit surveys and current news articles regarding labor's aims in the approaching negotiations over expiring contracts this year (1964), the trend appears to be summarized in the single word, more---More paid vacations, more rest periods, more retirement benefits, more employees covered by benefits are all indicators of this trend. Unions are pressing for increased benefits under existing plans in the form of (1) inclusion of dependents in the health and insurance plans, (2) continuation of these two plans after retirement, at reduced prices to the employee, (3) provision for payments (reduced) to the widow in the event of the death of the pensioner, (4) early retirement, and (5) "escalator clauses" for pensions that will increase benefits as the cost-of-living index increases.

New fringes are being adopted at union insistence, for example: "sabbatical" leaves every five years (steel workers won 13-week vacations every five years for older employees); and technological adjustment pay for workers laid off as a result of new technological developments. Some new benefits are of the "off-beat" variety; e.g., supermarket clerks in Los Angeles get free psychiatric services as a result of negotiated contract; "lonely pay" as added compensation for workers who are deprived of the companionship of their associates

while on the job;[61] and bonus pay while workers are on vacation "to cover the extra cost of travel and spending time away from home".[62]

Aside from some of the unusal additions to individual companies' fringe packages, the basic viewpoints of the unions, as they approach the bargaining table, are: (1) job security for the workers presently employed, and (2) more employment opportunities through reduced working time. Management has no quarrel with the first objective and can even claim credit for initiating the early programs. It is over the second point that disagreement develops. Concessions have been made, but the forthcoming negotiations in August between the "Big 3" and the United Auto Workers may be bitter. Some of the bargaining points that will probably emerge are listed below since these particular negotiations seem to set the pattern for bargaining in a fair portion of American industry.

(1) Tie pensions to cost of living.

(2) Employers pay full cost of hospital and medical insurance for retirees.

(3) Create more jobs through early retirement, longer paid vacations, more paid holidays, and shorter work week.[63]

[61]"Rising Fringe Benefits", Business Management, V24, August 1963, pp. 45-8.

[62]Walter Reuther, an address before the UAW Convention at Atlantic City, March 1964.

[63]*Ibid.*

In additiion the UAW will fight: (1) to cut the production pace by reducing the speed of the production line, and (2) for increased time away from the production line (it has been asserted that the companies should hire fewer supervisors and more actual production workers). The UAW strongly supports the idea of double pay for overtime as a means of forcing the employer to hire additional workers.[64]

To shift to the management side of the house, probably the most significant trend here, is the increased awareness by management of the cost and impact on employee, of fringe benefits. Management has stood accused of abdicating, to unions, their control over the structure of the fringe package and of the fringe-base pay "mix".

> Managers have not only acquiesced to union demands for particular fringe benefits but companies have sometimes offered a certain dollar amount, or cents-per-hour equivalent, and have left to the union the decision as to how the package is to be allocated between base pay and fringe benefits.[65]

In the past, companies have often spent millions of dollars on benefits and then made secret of what those benefits are and how much they cost.

> Management preoccupation with legal negotiating and financial administration has led them to slight the psychological value in an employment benefit program.[66]

[64]U. S. News and World Report, March 16, 1964, pp. 31-34.

[65]Foegan, op. cit., pp. 22.

[66]"Employee Benefits Not Communicated", Controller, V 28, June 1960, pp. 280.

It has been proposed that an operations analysis approach can be taken to determine the proper mix of benefits that will maximize employee satisfaction and assure efficient production.[67] The cost data on all the fringe benefits is becoming more available as companies realize the need. The National Industrial Conference Board, Bureau of Labor Statistics, and Chamber of Commerce of the United States have all conducted extensive studies in this area. Judgement is necessary in selecting the proper fringes for the particular company; e.g., retirement benefits are much more appealing to older male workers than to young, married women who are interested in immediate spending money. These selections would have to be assigned a ranking or preference value in order to apply quantitative principles. If the optimum combination could be derived with this approach, it would be necessary to reappraise the package on an annual basis.

In order for such an approach to be used, the employees must understand what benefits are involved and how they are affected. Within the last 3-5 years there is increasing evidence in the professional periodicals and surveys by NICB that more and more companies are realizing that advertising their fringes has a place in the budget and may be as important as money spent on advertising their product.

This move to regain control, or at least to share control with the unions, of the fringe programs, is apprently appreciated by both sides of the bargaining table. "Advance

[67] J. H. Foegan, "Product Mix for Fringe Benefit," Harvard Business Review, Vol 39, June 1961, pp.64-8

bargaining" in preparation for formal contract talks, and even continuous liaison is becoming more prevalent. This trend for economic appraisal and analysis of benefits is probably the most significant and welcome idea that has occurred in the "Topsy-like" growth of fringe benefits.

In response to the question posed at the beginning of this paper, "do fringe benefits pay for themselves"; it is hoped that the reader now realizes that there is no answer. The fringes that have been granted by employers are now taken for granted. Industry has only recently awakened to the fact that management has not always been in control of their fringe programs, much less properly cost accounting them. The question should be re-phrased to read, "Will future additional fringe benefits pay for themselves."

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APPENDIX A

COMPARISON OF INDUSTRIAL FRINGE BENEFITS WITH THE SUPPLEMENTAL BENEFITS FOR MILITARY PERSONNEL ON ACTIVE DUTY

If definition of terms and differing attitudes complicate the discussion of fringe benefits in industry, the problem is compounded when an attempt is made to compare these benefits with the various military supplemental benefits. Again, we face the questions; (1) what constitutes the fringe, and (2) how do we cost account it once it is defined.

In 1961-62 a board, comprised of civilian members and a flag officer from each of the services with Mr. William Gorham as chairman, conducted intensive studies of military compensation. Vice Admiral T. G. Settle, who represented the Navy on the Gorham Board, has been most considerate in forwarding material on Military Supplemental Benefits which had been generated as a result of the controversies raised in this field by the Board.

It will be necessary to expose the reader to some new terms and a brief background on certain benefits before attempting to analyze the comparative costs of industry and military fringes:

1. Pay.

   a. Basic Pay
   b. Quarters (allowances and <u>quarters furnished</u>)
   c. Subsistence (rations and allowances)
   d. Hazardous duty
   e. Clothing (allowances and clothing furnished)
   f. Re-enlistment bonus
   g. Sea and foreign duty
   h. Medical incentive pay
   i. Proficiency pay
   j. <u>Federal Income Tax exemptions</u>

k. Terminal leave payments
l. Mileage at separation

2. SUPPLEMENTARY BENEFITS.

a. Pay for leave, holidays, etc.
b. Military retirement
c. Social Security
d. Dependency and Indemnity Compensation
e. Death gratuity
f. Burial costs
g. Medical care:
   Service Personnel
   Dependents
h. Separation pay:
   Terminal leave
   Severance
   Unemployment compensation
i. Commissaries
j. Post exchange
k. Civilian education
l. Recreational facilities
m. Mortgage insurance premiums

The foregoing list was provided by Admiral Settle. The original list also contained figures for each item which represented the obligations for the fiscal year 1961 for all military personnel on active duty. (Exceptions to this statement will be noted for the items which have been underlined.) The list also showed the dollars per capita and percent of pay for each item. (Since many of these items will be grouped under a common heading for the purpose of comparing with industry's fringes, it was not considered necessary to present the reader with an enormous quantity of nine and ten digit numbers at this time.) The purpose for introducing the list is to familiarize the reader with the terms and to explain the derivation of the military figures which will be employed in the study of comparative costs.

The cost of each of the items was represented by the amount of obligations against appropriated funds in Fiscal

Year 1961, as reported by the services, except for the following:

1 b. Quarters furnished portion of this item represents about one third of the total line item cost. Since the quarters already existed, they would not appear in current obligations. Approximately one half of this portion is for operation and maintenance and the remainder is the amortized initial construction cost. (In this item, as in all following items, the financial analysis was performed by Actuarial Consultants in various Federal Agencies.)

1 (j) Federal Income Tax Exemptions represent the estimated value of tax exemptions for certain non-taxable items of pay; e.g. quarters, subsistence, etc. The figures were calculated on the basis of a 1% sample of pay records and included: (1) determination of net income after deduction of required Federal Taxes from total pay; (2) determination of the annual income that a civilian with the same number of dependents would have to receive in order to have the same net after Federal Taxes; (3) arriving at the figure which represents the difference between what the civilian would be paying in taxes to have the income in (2) and the taxes paid by the serviceman in (1).

1(1) Mileage at separation figures will not include the amounts paid to personnel who do not re-enlist in the military. This item and terminal leave payments are paid whether the enlisted serviceman continues on active duty or not. If he remains on active duty the expense is considered part of his pay. If he returns to civilian life the mileage payments

are treated as costs of operation (costs of doing business); the terminal leave is considered a supplemental benefit if he returns to civilian life. (Terminal leave consist of a day's pay for each day of unused leave accumulated during his contract, up to a maximum of 60 days.)

2(a) Pay for leave, holidays, etc., is an implicit part of the pay allowances in list (1), but is broken out for the purpose of comparing with industry fringe benefits "time off with pay". It has been computed from an assumed 5-day work week.

2(b) Military retirement figures do not represent current obligations. They are the current-service accrual cost for active service performed in FY 61, calculated on an actuarial basis at 3% interest, with personnel retention rates substantially as they were in FY 61.

2(d) Dependency and Indemnity Compensation (DIC) figures are an accrual figure also. They are the actuarial commuted value of all future payments to be made on account of deaths occurring on active duty during Fiscal Year 1961.

2(h) Unemployment compensation portion of Separation Pay represents the amount obligated by the Department of Labor and not by the services. (These payments are similar to unemployment compensation disbursed through the States. Since the service man has had no opportunity to establish minimum requirements in "covered employment", the Department of Labor underwrites these payments, when necessary, for the serviceman who is released from active duty.)

2(i) Commissaries and 2(j) post exchange figures, in

addition to current obligations by the services, include an estimated rental charge for use of the buildings based on rental-sales ratios in comparable commercial activities.

In addition to the foregoing explanation on the derivation of cost figures for certain items, a brief amplification of some of the terms employed in the two basic lists is probably in order. Most of the terms are self-explanatory except for the following:

1(h) Medical incentive pay has arisen since World War II and is the additional compensation paid to doctors and dentists who serve in the military. The intent is to provide a partial offset for the loss of income from what they could earn in civilian practice.

1(i) Proficiency pay represents the attempt by the military to compete with industry for the technically trained and/or superior enlisted personnel. Proficiency pay is intended to attract and to hold these people who are in demand in civilian business.

2(e) Death gratuity and 2(f) burial costs represent lump-sum amounts which are paid at the death of a serviceman on active duty.

2(m) Mortgage Insurance premiums are paid for a serviceman when he must obtain a loan to finance a new home. The intent is to alleviate, partially, the expense and hardship of frequent moves and necessity of home purchase in areas of high rent or undesirable rentals.

With this introduction to military supplementary benefits and the previous information on fringe benefits in industry,

the information contained in Figure A 1 should be more understandable. The format is similar to that contained in a MEMORANDUM FOR THE CHIEF OF NAVAL PERSONNEL from Admiral Settle, dated 13 March 1963. (Additional figures pertaining to Civil Service have been deleted as having no bearing on the issues in this paper.)

The format and figures for industry's "supplemental compensation for services rendered" have been taken from the Chamber of Commerce survey of fringe benefits for 1961, for the most part. The corresponding figures for the military have been taken from the unabridged listing of Pay and Supplementary Benefits for FY 1961. (The list without figures has been presented previously).

Using Figure 7 (page 54) of this paper as a reference, note that Admiral Settle has not included the following items which were listed by the Chamber for industry:

1(c) Workman's compensation
2(e) Discounts on goods and services
2(f) Employee meals furnished by company
3 Paid rest periods, etc. (Pay for time not worked)

In personal memoranda between Admiral Settle and a financial analyst in another Federal agency the last three items were discussed and ultimately considered as not fulfilling the definition of "employee expenditures made as rewards for services rendered". (One memorandum noted that the Bureau of Labor Statistics intended to exclude these items in future surveys.) These items, along with workman's compensation, were excluded as being operating costs (cost of doing business) and not fringe benefits.

COMPARATIVE COSTS TO EMPLOYER/GOVERNMENT OF SUPPLEMENTAL BENEFITS 1961

	INDUSTRY	MILITARY
AVERAGE STRAIGHT TIME PAY (STP) OR MILITARY PAY	$4658	$4289

	AVERAGE SUPPLEMENTAL COMPENSATION FOR SVCS RENDERED			
	Costs per capita	%of STP	Costs per capita	%of pay
Employers'/Governments' share of insurance costs (OASI, life,health,death unemployment,mortgage,SUB, etc.)	$356	7.64	$116	2.71
Employers'/Governments' share of pension costs, retirement	211	4.53	601	14.01
Leave (vacation, sickness, holiday, administrative)	382	8.20	370	8.63
Profit sharing	40	.86	none	
Bonuses, awards	132	2.83	none	
Miscellaneous (severance, excess payments, etc.)	21	.45	6	.14
Premium pay (overtime, shift, holiday, etc.)	210	4.50	none	
Medical Care (dependents)	none		101	2.35
TOTALS	$1352	29.01%	$1194	27.8%

NOTE:

Although industry and the military compare favorably in 1961, the fringe benefit program in industry has a strong trend upward while military "fringes" have remained relatively stable.

FIGURE A 1

The average straight time pay for industry is slightly larger than the amount used by the Chamber and the Admiral has included premium pay as a fringe benefit. The overall result of these variations has produced a slightly higher percentage figure for industry fringes; 29% versus 25% for the Chamber.

On the military side, the average military pay was derived from the figures previously discussed. The Admiral made one modification in that he considered the costs for clothing as an operation cost comparable to the cost of doing business where industry supplies work and safety clothes. He excluded this cost from the total listing under Pay before computing the average pay. He has also excluded the following items from the list of SUPPLEMENTARY BENEFITS as being operating costs:

2(d) Dependency and indemnity compensation
2(g) Medical care for service personnel (note that costs for dependent medical care have been included.)
2(i),(j),(k),(l) Commissaries, post exchanges, civilian education, and recreational facilities.

This writer devoted considerable time to juggling figures in various combinations, deleting and adding various items, etc. The end conclusion reached was that 25-30% was a reasonable spread for the purpose of discussing comparative costs of fringe benefits between industry and the military. The boundaries of accuracy of the input figures do not warrant a more closely defined result than ± 5%. (The analogy of the so-called accuracy of corporate balance sheets with figures to the nearest cent when some inputs, e.g., depreciation, are only educated estimates, is brought to mind.) The significant

point is that an attempt to cost account supplemental benefits with similar economic analysis used in industry has been made.

An example of what can happen when the same ground rules are not applied can be demonstrated by an analysis of an unpublished paper prepared by students, under the Direction of Professor Tjersland, of the United States Naval Postgraduate School. The overall intent of the paper was to show the "real income" of a theoretical Naval Officer who would pursue an average Naval career followed by retirement at the rank of Captain, at the end of 30 years, with 75% retirement pay. In determining the various "additional income" figures the following methods were used:

(1) Premium costs for the most comprehensive Blue Cross/Blue Shield Plan were used to arrive at the additional income that would be required to have the medical care for the officer and his dependents which is furnished by the military.

(2) Premium costs for a $3500 Life Insurance Policy were used for the death gratuity and burial costs benefits.

(3) Discounted value of the dependency and indemnity compensation (DIC) benefits to the widow was computed as $51,000. The premium for a 30 year term insurance policy was used as the amount of additional income required. (It should be noted that DIC is in force only while the serviceman is on active duty.)

(4) The amount of cash that the officer would need at age 52 (retirement age after 30 years service) to purchase a life annunity equal to the retired pay of a Captain was calculated. Based on this, a figure of $230.78 per month addi-

tional income was determined. (This amount, if placed at 3% interest and compounded annually, would provide the necesary cash at age 52.)

(5) An "adjusting allowance" for income tax which would have to be paid on tax-exempt portions of military pay was added.

The reader should recognize that we are back to comparing apples with cabbages again. The potential fringe benefits for this one employee are being compared to the actual per capita expenditures experienced by an employer. In this case the fringes computed as a percentage of pay for an officer receiving an annual income of $4600 (comparable to the average annual incomes examined in Admiral Settle's report) came to 99% versus 25-30% in the "employer costs" surveys.

First, the benefits (additional income) of the theoretical officer will never be realized unless he fulfills his theoretical career. If he should leave the service during the first twenty years, the $230.78 per month added income (amounting to 60% of the 99%) vanishes retroactively! (A further detail is that retirement between 20 and 30 years would only yield 50% pay.)

The next major difference is the handling of the Federal income tax exemption. The financial analysts who supplied the facts and figures for Admiral Settle's report, correctly considered this amount as an increase in pay,not a fringe benefit. This has the effect of increasing the "base" with no increase in fringe benefits. In the case at hand, the base remains the same and a 25% fringe benefit is shown.

This criticism of the cost accounting of the "military income" in the referenced paper is not meant to detract from the main intent of the paper, i.e., base pay and allowances do not indicate the total income of a military officer. It is introduced here only to demonstrate how misleading the figures on fringe benefits can become. The main reason for the Gorham board becoming involved in the fringe problem was the absence of concrete facts to refute the spurious claims that military personnel received much greater fringe benefits than their civilian counterparts in industry. (The figures of 50% and 60% were not unusual in these accusations.)

The realization of the military for the need of honest economic cost accounting of fringe benefits, using similar ground rules as industry, is the most promising idea to emerge in the field of military personnel pay in the last ten years. This is the sort of language that Congress and the Defense Department Economists can understand and appreciate, if the information is presented in the proper manner.

[redacted]